FINANCIAL TIMES

World Business Newspaper http://www.FT.com

THURSDAY AUGUST 13 1998

Palestinian politics
Is Arafat doing enough to prepare for statehood?
Page 10

Let there be light
Behind the Russian plan to place mirrors in space
Technology, Page 8

Sweden
Welfare reform threatens labour-government ties
Page 2

Network computing
The Ellison-McNealy vision was right, but...
Page 11

WORLD NEWS

Kohl pushes tax reform to top of campaign agenda

Chancellor Helmut Kohl of Germany promised sweeping tax cuts would be the first act of his government if re-elected and accused Social Democratic opponents of "blackmail" by suggesting that reform could come only with a change of leadership. **Page 12; Editorial Comment, Page 11**

Russia strengthens CIS border
Russia said it was strengthening defences along the border of the Commonwealth of Independent States as Afghanistan's Taliban militia reported capturing more towns in the northern frontier area. **More towns fall, Page 6**

Serbia embraces peace plan
Serbia is said to have reacted positively to a peace plan for Kosovo proposed by the six-nation Contact Group but the ethnic Albanian leadership has largely been unable to give a coherent response because of a continued military offensive. **Page 2**

Abiola died of natural causes
Jailed Nigerian opposition leader Moshood Abiola died last month of natural causes, according to Ontario's chief coroner James Young, who headed an international team of experts that investigated the death.

Ukraine announces amnesty
Ukrainian president Leonid Kuchma approved an amnesty on Wednesday for about 25,000 prisoners out of a prison population of 325,000.

Saudi king undergoes surgery
King Fahd of Saudi Arabia had his gall bladder and gall stones removed and was later reported to be in good health.

Algerian bomb kills seven
A bomb exploded on an Algerian passenger train, killing seven people and wounding 11. **Media campaign, Page 6**

Italy faces new EU rebuff
The Italian government is bracing itself for a new rebuff from the European Union on controversial plans to open an airport at Malpensa, north of Milan. **Page 2**

Burma showdown looms
Burmese opposition leader Aung San Suu Kyi headed for a new confrontation with the military government by setting out on a road trip to visit supporters, similar to the one that led to a six-day standoff with the authorities in July. **Page 4**

New Zealand government collapses
New Zealand's coalition government collapsed with the defection of four minority party ministers, raising the possibility of a general election within the next few weeks. **Page 4**

US spy rocket crashes
A Titan 4A rocket carrying a top-secret spy satellite exploded in a fireball of debris and smoke seconds after blast-off from Cape Canaveral.

Sporting victory for Iran's women
Iranian women are to be allowed to attend a men's wrestling competition for the first time in nearly 20 years.

High pound hits UK film industry
The strength of the pound is deterring Hollywood studios from shooting big-budget films in the UK, casting a cloud over the government's hopes of sustaining the revival in the industry. **Page 7**

BUSINESS NEWS

Virgin Group set for autumn return to capital markets

Virgin Group of the UK is expected to return to the capital markets this autumn to refinance debts and release capital for investment in new ventures. The fund raising will involve a high yield bond issue of up to £300m ($495m). **Page 13; Long haul, Page 17**

CGU, UK insurance giant formed by the merger of Commercial Union and General Accident, saw interim operating profits tumble to £280m ($462m) from £503m because of severe weather claims and competition in general insurance. **Page 18 and Lex**

Scandinavian Airlines System reported a 31 per cent rise in first-half profits to SKr1.45bn ($179m) as cost savings compensated for modest traffic growth. **Page 13; World stocks, Page 32**

Novo Nordisk, diabetes care and industrial enzymes specialist, delighted investors with a 46 per cent rise in first-half pre-tax profits to DKr1.99bn ($294m) and plans for a DKr3bn share buy-back. **Page 15**

Electricité de France, Europe's largest electricity company, has been forced to increase imports because of a series of nuclear reactor problems. **Page 6**

ABN Amro, Dutch banking group, raised $1.25bn in an issue of preferred shares. **Page 14**

CalEnergy, US-based power company, is to apply the experience gained through UK subsidiary Northern Electric of deregulating markets to its $4bn acquisition of MidAmerican Energy. **Page 13**

Cendant, US direct marketing and franchising group racked by an accounting scandal, will today publish its restated results for 1997. **Page 14**

Boliden, Canadian mining company spun off by Trelleborg of Sweden, blamed a second-quarter pre-tax loss of US$52.1m on falling metal prices and costs associated with a tailings dam rupture in Spain. **Page 14**

Celsius, state-controlled Swedish defence group, announced a joint venture with LFK, guided missile subsidiary of Daimler-Benz Aerospace, to develop and produce air-to-surface missiles. **Page 2**

Development Bank of Singapore, largest south-east Asian bank, reported a 50 per cent drop in first half net profits to S$178.6m (US$103.4m), after sharply increasing provisions for bad loans. **Page 14**

Long-Term Credit Bank, troubled Japanese group, had its senior debt downgraded to junk bond status by US credit rating agency Moody's. **Page 15**

Commonwealth Bank of Australia posted a 4 per cent rise in annual net profits to A$1.25bn (US$741m) and predicted modest growth. **Page 15**

Parmalat, acquisitive Italian food and dairy products group, confirmed plans to expend its dairy activities. **Page 15**

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
Page 31

Japan denies yen is hitting world stocks

Sakakibara speaks amid analysts' worries that crisis may trigger Chinese devaluation

By Gillian Tett in Tokyo

The Japanese government yesterday renewed its verbal support for the yen as concern rose that a weaker Japanese currency could trigger a Chinese devaluation.

Haruhiko Kuroda, head of the International Bureau at the Ministry of Finance, warned the markets that the recent slump in the yen was "excessive". And Eisuke Sakakibara, the vice minister of finance for international affairs, told the Japanese media: "From here on we will take an aggressive stance on foreign exchange issues. I don't think the dollar/yen rate is the cause of global stock price declines."

The comments helped to push the yen nearly Y2 stronger against the dollar in morning trading in Tokyo.

However, the currency later weakened to around Y146 and dealers warned that the yen's recovery might not last, especially as there was widespread scepticism about whether the US would be prepared to intervene to support the currency.

On Tuesday the currency had touched an eight-year low of Y147.63 to the dollar. Kiichi Miyazawa, Japan's finance minister, said he planned to meet Robert Rubin, US Treasury secretary during the first week of September. The meeting would discuss the US and Japanese economies, Mr Miyazawa added. Yesterday's comments by Japanese officials appear to have been designed partly to stave off accusations that Tokyo is fuelling an Asian crisis. There is growing concern in Tokyo that the US and other western countries are blaming Japan for the current Asian instability.

Analysts of international markets are concerned that China may be forced to devalue the renminbi if the yen falls much further, even though senior Chinese officials have repeatedly promised not to. On Tuesday, Liu Mingkang, deputy governor of the People's Bank of China, the central bank, said an adjustment to the exchange rate would not help China's long-term competitiveness and could prove counter-productive.

Thomas Foley, US ambassador to Japan, yesterday said he was confident that Keizo Obuchi, Japan's new prime minister, "was very determined and wholly aware of the challenges which Japan faces".

The US now "very deeply felt" that the Japanese government needed to take actions to boost the economy "as quickly as possible," he said in Tokyo.

"The view in Washington is that the Japanese economy is so important that how well it fares is critical to the recovery of the Asian economy and the world," he said.

Currencies, Page 21

Evacuations continue on Yangtze as Chinese fear dykes still at risk

A young boy paddles a small boat back from a visit to his father's flooded factory in Huamei County yesterday – across the river from Jiujiang city in Jiangxi province. Tens of thousands of residents have been evacuated since the main dyke along the Yangtze river broke last Friday. Authorities fear that dykes in the area are still at risk. Picture: AP

FINANCIER SAYS RUSSIA'S MARKETS ARE IN 'TERMINAL' CRISIS

Soros urges pegged rouble

By Simon Davies in London and John Thornhill in Moscow

George Soros, the billionaire financier, yesterday warned that the turmoil in Russia's financial markets "has reached a terminal phase" and urged a devaluation of the rouble and the introduction of a currency pegged to the dollar or the euro.

Mr Soros, who made a fortune betting against the European exchange rate mechanism, has been an critic of fixed-rate currencies, and conceded that the currency board he proposes for Russia "is too rigid, and an arrangement that is too rigid is in danger of breaking.

"But in the present circumstances, it is the most efficient way to stabilise the situation."

In a letter to the Financial Times, Mr Soros said Russia would require $50bn of reserves to back a currency board, whereby it would be committed to exchanging roubles for dollars or euros at a set rate. He said this rate should be 15 to 25 per cent below the current exchange rate, to reflect the impact of the collapse in the oil price.

In July last year, Mr Soros's funds ranked among the top foreign portfolio investors in Russia with total exposure of $2.5bn.

Russia has $17bn of reserves, and the International Monetary Fund and World Bank have agreed to provide a further $17bn of assistance. Mr Soros said the Group of Seven leading industrial nations should provide a further $15bn to shore up confidence in the new regime, and said any delay would be disastrous.

The Russian government has long argued it is too big and complex to have a currency board, and has stuck to a more flexible trading band for the rouble. Argentina and Hong Kong have currency boards.

Mikhail Zadornov, finance minister, yesterday rejected any notion of devaluation, which would be disastrous for the many Russian corporations which have borrowed in dollars, and for the country's banks.

Russian promises, Page 2
Letters, Page 10
Lex, Page 12

Britain withdraws from military satellite project

By George Parker in London and Tobias Buck in Bonn

Britain yesterday provoked surprise and dismay in Bonn and Paris by pulling out of a £1bn ($1.65bn) tri-national project to develop a military satellite.

The UK signed up to the joint venture with France and Germany in December 1997, hailing it as a flagship example of how European Union member states could work together on big defence projects.

But Lord Gilbert, UK defence minister, said yesterday he had pulled out of the venture because it was incapable of delivering a satellite in time for Britain's deadline of about 2005.

Britain's decision to go it alone came as a surprise to Germany, where defence officials reacted with barely disguised anger. Bonn insisted the joint venture satellite would have been ready by 2005.

"It is certainly quite unusual to leave a project when a memorandum of understanding was signed only eight months ago," the German defence ministry said. He added that Britain's actions were "to my knowledge, without precedent".

Paris and Bonn are now expected to hold talks to decide whether to proceed with a bilateral venture, in the face of a rival British satellite system.

"All plans so far have become obsolete," the German defence ministry said. "We will now have to sit down with our French partners and will have to undertake a new evaluation and find a new solution."

Lord Gilbert said Britain would concentrate on "a national solution" to its military satellite needs following its decision to withdraw from the so-called Trimilsatcom project.

Britain's three Skynet satellites, which provide communications for UK forces around the world, will need replacing in the middle of the next decade. The new satellites are expected to cost more than £100m apiece. Lord Gilbert expects to procure the satellites under the first private finance initiative deal for a large military hardware project.

ABB restructuring splits conglomerate into eight divisions

By William Hall in Zurich

ABB, the much admired engineering conglomerate, has scrapped the matrix management structure put in place by Percy Barnevik, the man who turned the company into a world-class competitor after the 1988 merger of Sweden's Asea and Switzerland's Brown Boveri.

The move brings with it the biggest management shake-up in ABB's short history and is a sign that Göran Lindahl, 53, who replaced Mr Barnevik as chief executive last year, intends to put his own stamp on a group often held up as a textbook example of a well-managed multinational.

Eberhard von Koerber, 60, head of Europe, and Howard Pierce, 57, head of Americas, are to step down from the executive board, but will remain involved with ABB. However, Sune Carlsson, 57, head of industrial and building systems, ABB's biggest business, is leaving the group following ABB's decision to split his empire into three separate divisions – automation; oil, gas and petrochemicals; and products and contracting.

ABB said it was dissolving its regional management structure, under which three members of its executive board shared operational responsibilities with the three executives heading its three core businesses – power generation, power transmission and distribution and industrial and building systems. It is also restructuring its operation into eight core businesses, all of which will be represented on the new executive board.

Mr Barnevik, a regular performer on the international management lecture circuit, remains chairman of ABB. Mr Lindahl stressed yesterday that the decision to scrap one, albeit very senior, layer of management, was a natural evolution of his predecessor's ideas.

The elimination of ABB's regional matrix management structure will save 100 jobs. Mr Lindahl described the change as "an aggressive move aimed at greater speed and efficiency by further focusing and flattening the organisation". ABB will remain decentralised.

Mr Lindahl said ABB was more than a power engineering company. By splitting the group into eight divisions, it should help focus investor attention on its role as a world leader in fast-growing businesses such as automation, where it has a $6.4bn order book and a staff of 34,000.

Lex, Page 12

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	8557.85	(+65.0)
NASDAQ Composite	1824.99	(+32.29)
Europe and Far East		
CAC40	3945.70	(+99.72)
DAX	5402.87	(133.97)
FTSE 100	5462.2	(+29.4)
Nikkei	15,378.97	(−28.02)
US Lunchtime RATES		
Federal Funds	5.56%	
3-mth Treas Bills: Yld	5.051%	
Long Bond	106⅜	
Yield	5.635%	
OTHER RATES		
UK: 3-mo Interbank	7⅞%	(7⅞%)
UK: 10 yr Gilt	112.2188	(112.238)
France: 10 yr OAT	104.99	(104.95)
Germany: 10 yr Bund	105.53	(105.51)
Japan: 10 yr JGB	111.91	(111.92)
NORTH SEA OIL (Argus)		
Brent Dated	$11.295	(11.275)

GOLD		
New York: Comex	$282.8	(284.5)
London:	$283.55	(284.75)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.628	
DM	1.7720	
FFr	5.942	
SFr	1.4810	
Y	145.95	
London:		
£	1.6253	(1.6330)
DM	1.7747	(1.7813)
FFr	5.9488	(5.9715)
SFr	1.4827	(1.4886)
Y	148.005	(147.14)
Tokyo Close		Y 146.0
Sterling		
DM	2.8915	(2.9086)

London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

9 770174 738143   3 3

CONTENTS

WORLD NEWS

EUROPE

Russia promises to stick to austerity plan

By John Thornhill in Moscow

The Russian government yesterday struck a defiant note in the face of crumbling financial markets, promising to stick to its austerity programme, honour all its debt obligations, and stave off the threat of devaluation.

The finance ministry also announced it had agreed with the International Monetary Fund to amend its borrowing programme and use $1bn of its initial $4.8bn support loan to redeem a slice of domestic debt. The IMF had originally intended that the tranche should be used solely as a stand-by facility to bolster the reserves of the central bank.

Sergei Kiriyenko, prime minister, said there would be no changes in government or central bank policy in response to the markets' fall. "The worse the situation, the more firmly and precisely we must carry out our programme," he said.

Mikhail Zadornov, finance minister, also delivered a stout defence of the government's current economic policies, saying a devaluation could and should be avoided. He said government tax revenues were on a steadily improving trend, which would enable the government to meet its debt obligations and restore the confidence of the markets.

"We believe there is only one way to persuade investors and that is by our own actions," he said, as he announced that one in five of the finance ministry's employees would be sacked.

The ministers' comments helped calm Russia's turbulent markets, which have been in seeming free fall for the past few days. Many analysts believe the recent wild price movements have been exaggerated by the small volume of trading during the holiday period.

Nevertheless, Erik Nielsen, Russia economist at Goldman Sachs, the international investment bank, said the outlook for the country's financial markets was "bleak", given the nervousness affecting all emerging markets. He estimated that on current projections the government would have a funding shortfall of about $3bn this year.

"In normal circumstances, the numbers would not look that scary. But when investor sentiment is so bad, it looks different... there are not many countries in the world that could survive if they cannot roll over their debt," he declared.

But Mr Nielsen said he believed the World Bank, International Monetary Fund and Groupo of Seven countries would be flexible enough to cover any budget shortfall this year. "Refusing Russia a small amount of additional money would be like cancelling your health insurance just as you are getting sick," he added.

Yesterday, David Lipton, under-secretary for international affairs at the US Treasury, began talks in Moscow with senior ministers. But the US embassy stressed Mr Lipton's was a regular visit and not connected with the latest market turmoil.

Mr Lipton, who played a pivotal role in co-ordinating the $22.6bn assistance package for Russia, is also preparing the ground for President Bill Clinton's summit meeting in Moscow at the beginning of September.

Also, striking coal miners, who have been blocking the trans-Siberian railway near Chelyabinsk, agreed to end their protest yesterday.

Lex, Page 12

GERMAN ELECTION CDU/CSU PROGRAMME

Kohl sees the economy as vote winner

By Ralph Atkins in Bonn

Chancellor Helmut Kohl yesterday claimed Germany's economic upswing could still turn the September 27 election in his favour. He said the structural reform process initiated by his centre-right governing coalition would continue if it was re-elected.

Mr Kohl unveiled an economic and foreign policy programme which would build on existing policy – but with a significantly tougher stance against immigration and excessive centralisation in Europe.

Mr Kohl said the "key project" in a re-elected government would be the revival of its tax reform package, involving net cuts worth DM30bn ($16.8bn) a year. The package collapsed last year after resistance in the Bundesrat, the second chamber of parliament controlled by the opposition Social Democrats. "At the election, the voters know that they are also voting on our tax reform proposals," the manifesto says.

The basic rate of income tax would drop from 25.9 per cent to 15 per cent. The top rate would fall from 53 per cent to 39 per cent. Income taxes paid on commercial activities would fall from 47 per cent to 35 per cent.

At the same time, the joint programme from Mr Kohl's Christian Democratic Union and its Bavarian sister-party, the Christian Social Union, calls for a revitalisation of Germany's 16-state federal system. Under the proposals, the states would have greater tax autonomy and the country's complex financial equalisation system, intended to level out living standards between states, would be overhauled.

On Europe, the programme also calls for greater "subsidiarity" – allowing decisions to be taken at the lowest appropriate level. Reflecting Mr Kohl's switch in recent months towards defending national interests, the programme states: "Our vision is a Europe of nations and regions. The CDU and CSU say No to a centralised European federal state."

On the European Union's eastwards expansion, the programme says that "given the big differences in economic development, sufficiently long transitionary periods are in the interests of the entry candidates as much as the European Union".

It also calls for the rapid end of funding from EU cohesion funds for member countries joining the eurozone.

The programme says Germany is a "foreigner-friendly land" but warns the will and ability of Germans to accept newcomers could not be overstretched. "Therefore the inflow has to stay as limited as possible," it said. If re-elected, the CDU/CSU would seek to make it easier for foreigners to obtain German citizenship.

At yesterday's launch, Theo Waigel, CSU leader and federal finance minister, went further: "Germany is not an immigration country," he said.

Editorial Comment, Page 11

Italy braced for rebuff from EU

By Paul Betts in Milan

The Italian government is bracing itself for a new rebuff on Monday from the European Union on controversial plans to open a L2,000bn ($1.1bn) airport in Malpensa, north of Milan.

A consultative committee of experts from EU member states is expected to back objections by Neil Kinnock, the EU transport commissioner, against the Italian government's decision to transfer all flights now serving Milan's Linate airport except the Milan-Rome shuttle to the new hub when it opens on October 25.

Although not binding, the recommendations of the committee of experts will put further pressure on Rome to negotiate a compromise with the EU to avoid a damaging diplomatic conflict. A dispute could threaten the new airport's future and undermine plans to privatise Alitalia, the national carrier, next year.

The EU is set to make its final ruling on the Malpensa affair on September 9. Negotiations have continued to try and resolve the dispute but Italian compromise proposals have so far failed to break the deadlock.

A group of nine European airlines, among them British Airways, Lufthansa, KLM and Air France, have complained to the EU that the switch of all their services from Linate to Malpensa would give Alitalia an unfair competitive advantage.

They argue that the government's decision to reduce Linate's operations to the single Milan-Rome shuttle would enable Alitalia to continue to feed its Rome hub while also enjoying a dominant position at Malpensa.

The European airlines also complained that Malpensa's poor rail and road links to Milan would further undermine their services.

Mr Kinnock last month backed the airlines' case and rejected the Italian government's plans to redistribute Milan air traffic rights.

Italy has since been working on a compromise whereby Milan-Rome services from Linate would not be allowed to feed other international flights for a transitionary period. Linate would also be able to serve a number of other domestic and European destinations during this period until new road and rail investment to improve connections between Malpensa and Milan were completed in the next two years. Malpensa is about 40 miles from the city centre compared with only 5 miles for Linate.

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.

GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg. ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.

SWEDEN:
Responsible Publisher: Bradley P Johnson. Telephone +46 8 791 2345. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

R

KOSOVO CONFLICT ETHNIC ALBANIANS LARGELY UNABLE TO GIVE RESPONSE BECAUSE OF MILITARY OFFENSIVE

Serbia positive towards peace plan

By Guy Dinmore in Belgrade and David Buchan in London

Serbia has reacted positively to a peace plan for Kosovo proposed by the six-nation Contact Group but the ethnic Albanian leadership has largely been unable to give a coherent response because of the government's continued military offensive, diplomats said yesterday.

The proposals, described as a framework for negotiations or "menu of ideas", were presented to both sides last week by Brian Donnelly, the British ambassador to Belgrade.

A western diplomat described the contrasting tones of the Serb and Albanian reactions as "a bit embarrassing" for a plan that seeks to be a middle of the road compromise.

What reaction the Contact Group has had from the Kosovar Albanians has come from Ibrahim Rugova, their self-styled president, who complained of the plan's failure to back independence.

The seven-page document, seen by the Financial Times, suggests that Kosovo be given broad autonomy as a "special part" of Serbia, or a "constituent unit" of the Federal Republic of Yugoslavia, which currently comprises the republics of Serbia and Montenegro.

"Kosovo would be obligated not to secede unilaterally, and Belgrade would be obligated not to alter Kosovo's status unilaterally," the proposal says.

Serbia fears that substantial autonomy for Kosovo – where some 90 per cent of the province's two million people are ethnic Albanians – would be just one step towards independence. The Albanians point out that Kosovo had autonomy from 1974 to 1989 when Slobodan Milosevic, then president of Serbia, revoked its status.

The peace plan suggests Kosovo should have "constitutionally protected significant legislative, executive and judicial powers, including control of local police". It would also have its own taxation, flag and emblems and "international relations in particular areas".

The Contact Group – the US, Russia, Britain, France, Germany and Italy – expressed "its willingness to provide political, economic, technical and other support for the implementation for such an agreement".

But, keeping up its war of words, Nato yesterday said it would act "swiftly and credibly" if asked to help restore peace in Kosovo. Nato ambassadors met in Brussels to approve final military planning of possible air strikes, and to determine what contributions alliance members might make to such air operations.

The plan suggests for Kosovo broad autonomy as a 'special part' of Serbia

Diplomats said it was too early to speak about a Bosnian-style, Nato-led peacekeeping force to police the agreement. Western governments are reluctant to become embroiled in another long-term Balkan commitment and even less enthusiastic about using military intervention to halt the conflict, which has cost nearly 1,000 lives and displaced over 230,000 civilians over the past five months.

Majority sentiment among west European governments is that any Nato intervention in Kosovo should have the backing of a United Nations Security Council resolution, which requires at least the acquiescence of Russia. But a UK diplomat said there is growing "frustration that Mr Milosevic thinks he is protected by a Russian veto".

The Contact Group plan urged both sides to look at how other European states deal with the questions of minority rights and raises the examples of the German community in Italy's Alto Adige region, the Swedish minority in Finland, the autonomous regions of Spain and the Russian republics of Chechnya and Tatarstan.

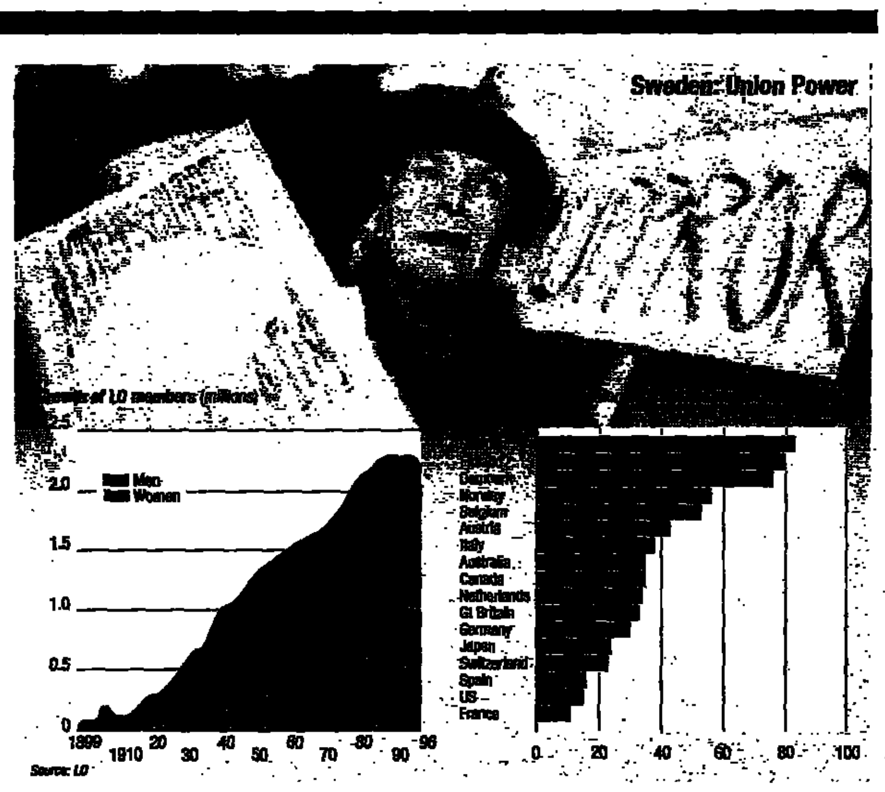
The Serbian government has reacted positively to the Contact Group plan but diplomats are sceptical that Mr Milosevic, now president of Yugoslavia, intends to embark on serious talks until the rebel Kosovo Liberation Army (KLA) no longer poses a threat. Officials said police yesterday captured another "terrorist" stronghold, the village of Glodjane close to Albania.

A KLA communique, which may not represent all views of the fractious group, effectively rejected the Contact Group proposals, calling on all Albanians to unite in what it said would be a protracted war.

Observer, Page 11

Social Democrats aim to remain the workers' choice

The longstanding partnership between Sweden's ruling party and the unions looks set to continue, writes Tim Burt



Source: LO

Göran Persson, the Swedish prime minister, interrupted his election campaign last week to celebrate one of the most enduring partnerships of Scandinavian politics – the alliance between Sweden's ruling Social Democrats and the LO, the powerful trade union confederation.

Mr Persson was joined at Stockholm's Cabaret Restaurant by a host of senior party colleagues to celebrate the LO's centenary. His appearance, however, was more political than social.

In the run-up to the September 20 election, the Social Democratic leadership will cite its double act with the LO as one of the cornerstones of the welfare system – just as it has in every election since the second world war. In return, the LO will use all its resources to persuade its 2.17m members to vote for the SDP.

In most countries, union campaigning is a factor on the periphery of elections. But in Sweden, a country of about 6m voters, voting patterns among LO members can make the difference between victory and defeat.

More Swedish voters are union members than in any other country in the industrialised world – a factor which makes job security and unemployment central issues in every election.

"It is well known that the LO delivers election victories for the Social Democrats," according to Christian Bratt, head of international affairs at the Swedish Employers' Confederation, the SAF. "In return, the party agrees not to tamper with labour legislation."

The SAF clearly has its own agenda in criticising the LO. It wants to see labour market deregulation in Sweden, with employers having greater freedom to hire and fire, imposing performance-related pay, and negotiating individual contracts.

Even so, Bertil Jonsson, president of the LO, admits that his organisation is a highly political animal which views labour reform suspiciously. As a member of the SDP's management committee, he knows that the party endorses the unions' wish list of maintaining job security and union recognition.

"We are two branches of the same tree. The trade union movement gave birth to the SDP and it remains our party," he says.

Indeed, a number of current cabinet ministers have strong union links – including Mr Persson, who was a local union activist in the past. Their willingness to be associated with the LO owes much to its consensus tradition. The organisation has no tradition of militancy and remains wedded to agreed settlements with the SAF, with whom it negotiates wage agreements each year.

Mr Jonsson says there is no need for the sort of brutal union reform seen in the UK, because the LO already works closely with its "social partners" – industry leaders and employers' organisations – to resolve differences without resorting to industrial action.

But given its strong backing from the SDP, which has ruled Sweden for all but nine of the last 66 years, the LO is clearly in the driving seat when it comes to talks on wages and labour flexibility.

For Mr Jonsson, that means no dilution in current labour protection schemes or unemployment benefits. The LO has a special interest in such benefits since it runs the country's unemployment offices. Moreover, the LO leader is determined to see no weakening of collective agreements or changes to the "first in, first out" rules in making redundancies.

Flexibility, according to Mr Jonsson's definition, means a willingness to discuss partial privatisation of state concerns and work with employers to attract new investment to Sweden.

Yet many large companies, such as the truckmaker Scania, regard Sweden's labour laws as a handicap which could persuade them to move production overseas. "Decisions regarding labour flexibility could make the difference to our competitiveness and investment decisions," says Leif Ostling, Scania chief executive.

Mr Jonsson is unrepentant. He will not, he says, co-operate with a centre-right government led by Carl Bildt, the Moderate leader, if it tries to cut benefits or alter wage bargaining laws.

Nevertheless, Mr Bildt says Mr Jonsson is more of a pragmatist than he suggests in public. "We can work together, he talks a tough story but is ready to compromise on some areas," says Mr Bildt, who negotiated with the LO during his premiership from 1991-94.

The LO leader, mindful of his SDP allegiances, will have none of it. After working with the Social Democrats to defend workers' rights for decades, he says the organisation is not about to change course.

That means the LO will campaign for the SDP on a platform of halving unemployment in the next parliamentary period, and restoring full employment beyond that. That is a message that Mr Persson fully subscribes to, rallying voters around the country to the "cause of social justice". In that effort, the prime minister can rely on the LO's unstinting support. "I am telling our members not to vote for the right," says Mr Jonsson. "There will be no change in affairs of the heart."

Ukraine locks up debt-ridden officials

By Charles Clover in Kiev, Vlada Tkach in London, and agencies

In a bizarre attempt to solve a crisis of payments arrears crippling the country's economy, the Ukrainian government yesterday transported more than 1,000 factory officials and enterprise managers to a barbed-wire enclosed prison camp in rural Ukraine, where they will stay until they have paid billions of dollars worth of bad debts.

"Only when they have decided how to pay their debts will they be allowed out," said Valery Pustovoitenko, prime minister.

The internees lounged yesterday in track suits, smoking cigarettes and reading newspapers. Meanwhile, the government basked in its public relations coup, an attempt to shift blame for chronic wage and pension arrears away from the government to the enterprises which owe the government billions in back taxes.

Just as the Soviet economy was plagued by shortages, post-Soviet economies are characterised by the problem of payments arrears, and Ukraine is among the worst hit.

While Kazakhstan's economy has overdue debts totalling 40 per cent of its GDP and Russia has arrears of roughly 35 per cent, in Ukraine the figure is well above the country's GDP. The country has largely become a non-cash economy: last year barter transactions accounted for two thirds of economic activity.

But many experts question the usefulness of trying to force enterprises to pay.

"It is difficult to separate the enterprises which cannot pay from the enterprises which will not pay," said Volkhart Vincentz, an economist from the German Advisory Group in Kiev.

The European Union's Tacis programme completed a study last year of the arrears crisis, which concluded that the levels of inter-enterprise arrears in the Ukrainian economy are similar to levels of banking and trade credit in OECD economies. The study added that 85 per cent of the arrears were the result of uncollected receivables, indicating that it was beyond the power of most businesses to settle debts.

Sources of legitimate credit in Ukraine are few. While bank assets of an average OECD economy are roughly 100 per cent of GDP, in Ukraine, after hyper-inflation and macro-economic stabilisation, banking sector assets are less than 10 per cent of GDP. Experts argue that arrears are taking the place of commercial credits.

NEWS DIGEST

DEFENCE RESTRUCTURING

Sweden and Germany in joint missile venture

Celsius, the state-controlled Swedish defence group, yesterday announced a joint venture with LFK, the guided missile subsidiary of Daimler-Benz Aerospace (Dasa), to develop and produce new air-to-surface missiles.

The deal – the latest in the restructuring of Europe's defence industry – follows Celsius's announcement earlier this week that it had set up a technology-sharing company with the DCN, the French state naval shipyard, for the next generation of conventional submarines.

Under the missile agreement, LFK will hold 67 per cent of the new company, with the remainder held by Bofors Missiles, a Celsius subsidiary. The company is expected to supply the German air force with new missiles for its Tornado aircraft, with possible future use on the Eurofighter and Sweden's Gripen fighter. **Tim Burt, Stockholm**

DANISH TRADE

May strike hits surplus

The 11-day strike which paralysed Danish industry in May contributed to a fall in the country's merchandise trade surplus in the first five months from DKr10.4bn ($1.5bn) in 1997 to DKr1.5bn this time.

The poor trade figures pushed the current account into a deficit of DKr5bn for the period against a surplus in the same period last year of DKr6.2bn, leaving a deficit of DKr4.2bn for the 12 months to May, according to official statistics published here yesterday.

Exports were up by DKr1.4bn to DKr128.5bn. Imports increased DKr9.3bn to DKr126.0bn.

The current account moved into surplus in 1989 after 26 consecutive years in deficit. The surplus peaked at DKr30bn in 1993 and dwindled to DKr6.9bn in 1997.

After the May strikes, the government implemented a series of tax measures in order to curb domestic demand and prevent a further deterioration in the current account. **Hilary Barnes, Copenhagen**

CAUCASUS CONFLICT

Armenia PM may go to Baku

President Robert Kocharyan of Armenia said yesterday he was likely to send his prime minister to Azerbaijan next month, opening the way for a diplomatic breakthrough with the country's enemy.

Mr Kocharyan said he had decided not to accept a personal invitation by Haydar Aliyev, the Azeri president, to attend a regional conference in Baku on September 7-8, but that he would probably send his prime minister, Armen Darbinyan.

Armenia and Azerbaijan have been involved in a territorial row over Nagorno-Karabakh, a mainly Armenian-populated region in Azerbaijan, since before the Soviet Union broke up in 1991. Armenia has backed the Karabakh separatists in a military confrontation with Azerbaijan.

Western countries are worried that the lingering conflict could hinder development of Azerbaijan's Caspian Sea oil and gas reserves, into which foreign companies have already pledged to invest nearly $40bn. **Reuters, Yerevan**

CORRECTION

Helmut Kohl

The caption to a picture of Helmut Kohl in the FT of August 4 was incorrect. The picture was taken during the chancellor's visit to Halle in 1991.

STOCK MARKET TURMOIL INVESTMENT FIRMS SEE AMERICAN CUSTOMERS STAY COOL BUT HOLD BACK FROM BUYING ON DIPS

Small investors hold on in market falls

By John Authers in New York

US small investors have held on to their investments during the sharp market declines of the last three weeks, but they appear less enthusiastic to "buy on the dips" than they did last October, during the market's last significant decline, according to reports from the largest retail investment firms.

The news will help sentiment on the market, which recovered slightly yesterday morning. Market professionals might be concerned by suggestions small investors could begin to exit the market in the face of persistent share price declines.

According to Charles Schwab, the largest retail broker, there was a slight outflow from its mutual funds last week, with about $400m being withdrawn from its equity funds. Schwab holds mutual fund investments of more than $200bn on behalf of clients, and this sum would not be large enough to force fund managers to sell stocks.

It is a different reaction from last October, when a net $600m flowed into the funds on the day after a Dow Jones Industrial Average drop of 550 points forced the New York Stock Exchange to close early.

Early last week, Schwab's volume of telephone calls was up about 40 per cent from normal levels. Tracey Gordon, of Schwab, said that investors seemed to be deterred by the series of falls, which differed from the pattern last October when the market rebounded quickly. "The thing preventing any big surge of investing is that we are seeing a series of down days. It's a perceptibly different pattern from last October. We're talking about something noticeable but not drastic."

Vanguard, which leads the US in monthly mutual fund sales, saw modest flows into equity funds last week, although these were much slower than during July, and there was some "buying on the dip" by investors yesterday. But like Schwab, Vanguard said investors' perception might change if the market went into a prolonged slide. John Worth, who speaks for the company, said: "Whether that investors stay invested in a Chinese water torture environment is the question. If the market keeps going down over a period of months that may give investors reason to rethink their strategies."

Same lawyers, different act as political circus goes on

Familiar faces from the Watergate scandal are moving into a fresh limelight around President Clinton, writes **Nancy Dunne**

There was a man who worked in a circus. His job was to follow the elephants around with a pail and shovel. One day he met a friend who said: "How can you do this for a living? Why don't you get another job?"

"What? And leave show business?" the man replied.

In Washington, it is the lawyers who perennially carry the pails and shovels, and the politicians who make the mess.

The troubles surrounding President Bill Clinton illustrate this curiously Washington phenomenon. A generation has passed since the Watergate affair rocked the nation and led to the resignation of President Richard Nixon. But many characters who litigated and advised, consulted and lawyered then are doing their rounds again.

Comparisons between Watergate and Mr Clinton's troubles have seemed inappropriate. The Watergate scandal grew out of the break-in and bugging of the Democratic National Committee offices in the Watergate apartment complex. When Nixon became the first man to resign from the US presidency 24 years ago, he left behind seven senior aides, who would be sent to prison for helping to cover up White House involvement in activities which undermined an election.

The Clinton scandal now focuses on sex – and the President's denial of an affair with Monica Lewinsky, a former White House intern. During congressional Watergate impeachment hearings, a young political idealist was brought on the staff as a junior lawyer. Hillary Rodham, later to become Mrs Clinton, was given the task of writing the procedures under which Mr Nixon would be impeached.

She and her husband now have a contingent of lawyers in their employ as they struggle to free themselves of scandal. But Watergate was precedent-setting. It put limits on which presidential political activities would be tolerated and it demonstrated that the mightiest can be brought down.

Watergate . . . demonstrated that the mightiest can be brought down

Ms Rodham's direct boss during the Watergate investigation, Bernard Nussbaum, became White House counsel in the first Clinton administration. He had won a name for himself as a tough Wall Street litigator, but the skills honed in corporate law did not play well in Washington.

He became the focus of controversy when he tried to delay an outside investigation of the office of Vince Foster, the assistant White House counsel who committed suicide in 1993. Mr Foster had kept the Clintons' personal files on Whitewater, the real estate deal which had turned bad, when some key records disappeared, to reappear in the family quarters of the White House.

It was Mr Nussbaum who fought against turning the Whitewater case over to a special prosecutor. From his experiences in Watergate, he knew about the institutional incentive for the prosecutor to find crimes and misdemeanors to justify the expense of his investigations.

Richard Ben-Veniste became a Watergate star when he helped to secure important records during the firestorm which erupted when Mr Nixon fired the special prosecutor investigating him. He was a brilliant and brash 30-year-old assistant special prosecutor who pursued the tapes which ultimately proved the president's involvement in Watergate. He came back on the scene in 1995-96 as a grey-haired minority counsel for the Senate Whitewater committee. This time around he was on the defence – a smooth cool interrogator who portrayed the Whitewater scandals as non-events. He has been a ubiquitous "talking head" on television news shows, defending the White House, ever since.

ALL THE OLD FACES: (clockwise from top left) Sam Dash, former Senate Watergate counsel; Bernard Nussbaum, former White House counsel; Monica Lewinsky and her lawyer Jacob Stein; former president Richard Nixon and Bill Clinton

Montage by Michela Mages

Jacob Stein, one of Ms Lewinsky's lawyer, was the only defence attorney in Watergate to get an acquittal – for Kenneth Parkinson, an attorney for Nixon's re-election committee. This time he used his sterling reputation as to convince the special prosecutor, Kenneth Starr, that he would conduct at all-out defence of Ms Lewinsky if she did not receive full immunity.

Sam Dash, then a counsel for the Senate Watergate committee, was also deified for his role in the investigation. Now a professor at Georgetown, he has been designated as Mr Starr's ethics adviser. As a more neutral figure, he was chosen to do the initial discussions in the negotiations which gave Ms Lewinsky immunity.

Pat Buchanan, a perennial Republican presidential candidate, was not a lawyer. He was Mr Nixon's speechwriter and close family friend, who defended the president to the end. But when tapes were released that demonstrated Mr Nixon's duplicity, he helped to convince the family that resignation was inevitable.

"The problem is not Watergate or the cover-up," he told family members, according to The Final Days by Bob Woodward and Carl Bernstein. "It's that he hasn't been telling the truth to the American people... the president can't lead a country he has deliberately misled."

Additional reporting by Nancy McCord

Jamaica looks for more foreign capital

By Richard Lapper, Latin America Editor

The Jamaican government is hoping to attract more foreign capital to its troubled financial sector as it presses ahead with plans to sell banks and other financial institutions acquired during the country's financial crisis.

The Financial Sector Adjustment Company (Finsac), the government company set up to restructure finance houses with public funds, hopes to make its most significant disposal to date in the next few weeks, with the sale of one of the country's biggest unit trusts.

"We are actively promoting foreign ownership," said Omar Davies, finance minister, who is keen to attract foreign buyers for banks including National Commercial Bank, Jamaica's biggest commercial bank, over which the government took full control in March.

In London recently, Mr Davies said foreign banks in Jamaica had performed better than their domestically owned counterparts, which had lost money following poorly executed diversification. "They [the foreign banks] have faced the same problems as our domestic institutions but have better operating disciplines."

Many banks were hit by sharp rises in interest rates. As part of Mr Davies' tough counter-inflationary strategy, interest rates were increased to more than 40 per cent in 1996. But rates have subsequently fallen (the 6 month repo rate fell to 24 per cent in July).

The government has injected some J$73bn (US$2bn) into Finsac to allow it to acquire the troubled banks. Analysts suggest it could expect to recover 30-40 per cent of this through asset sales.

Mr Davies said reforms to Jamaica's banking regulations were now coming into effect. Local banking rules have been amended to incorporate international capital adequacy standards, the number of regulators at the Bank of Jamaica tripled to 100, and the frequency of bank inspections increased.

Rules enforcing stricter obligations on boards and outside auditors have been strengthened, and a new deposit protection scheme comes into effect this month. Finsac hopes to sell Eagle Trust, Jamaica's second biggest unit trust company, and Crown Eagle, an insurance company, in the next few weeks.

Argentina labours over how to throw out 'trash contracts'

Reform to give greater job security is opposed by employers who want more flexibility, writes **Andrea Mandel-Campbell**

Maximus Bellomo had been working in the administrative department of a personnel company for nine months when his employer asked him if he would give up his full time staff position in exchange for being hired as an "apprentice".

Mr Bellomo would still be paid $530 a month but under the terms of his temporary contract, one of a variety introduced in 1995 to tackle Argentina's then 20 per cent unemployment rate, his employer's load would be lightened considerably. His boss would not have to pay healthcare benefits or payroll taxes which added another 40 per cent to Mr Bellomo's base salary, nor would he have to dole out a severance package if Mr Bellomo was made redundant.

The 24-year-old accounting student refused the offer and was sacked in December. Unable to find work since, he has entered the black market and sells dish towels on the street. "The people who suffer under this system are the ones who make the least amount of money," Mr Bellomo said, vowing never to work legally again. "What's the point? It doesn't get you anywhere."

Argentina's Lower House began discussions yesterday on a controversial labour reform bill proposed by the administration of Carlos Menem that would do away with most what have been dubbed "trash contracts" by union leaders.

The proposed reform, which has been debated by the ruling Peronist party for more than two years, was being called a "triumph" by Argentina's only union, the Central General de Trabajadores (CGT), because it will put an end to some precarious job conditions.

But for private industry and labour analysts who strongly oppose the bill, already approved by the Argentine Senate, it is not the temporary contracts that are contributing to the black market but Argentina's inflexible labour market.

Ernesto Kritz, a labour analyst with Sociedad de Estudios Laborales says, temporary contracts provided a record 600,000 jobs last year for unskilled workers who otherwise would not have been employed. Labour costs will increase 10 per cent if the temporary contracts were abolished and unless counter-balancing measures are taken, the move will cost Argentina 200,000 new jobs this year, said Mr Kritz.

It is not a price Argentina can afford given its 13.2 per cent unemployment rate.

Labour and tax reform are among several structural reforms still on the agenda since Argentina's dramatic market opening in the early 1990s saw the wholesale privatisation of state-owned enterprises and hyper-inflation curbed by fixing the peso to the US dollar.

Argentina's new challenge is to become more competitive in world markets and integrate its flourishing black market into the formal economy. "If we are going to make the economy more competitive we need to increase the real exchange rate by embarking on a very significant exercise in lowering internal costs," said Martin Redrado, founder of Buenos Aires-based think-tank, Fundacion Capital.

However, while many saw the labour bill as a first step towards a gradual loosening up of the system, as far as union leaders are concerned, it was the last. And what the union says counts, at least for the time being, with presidential elections less than 18 months away.

But whether the union liked it or not, Argentina's labour market remained more flexible in practice than in theory. "The flexibility exists in practice because where the market is the most rigid, employers just ignore the collective agreement and tell their workers 'take it or leave it'," said Mr Kritz. "If the law doesn't change, the labour market will change in the worst way possible, but it will change."

NEWS DIGEST

DORMANT SWISS BANK ACCOUNTS

Holocaust deal nearer as lawyers meet judge

Lawyers for Holocaust victims yesterday met representatives of the Swiss banks Credit Suisse and UBS in private session with the Brooklyn judge who is adjudicating the class action lawsuit over accounts which were allowed to go dormant after the war.

The development appeared to improve the chances of an out-of-court settlement. It was the first time that Edward Korman, the judge, had held any formal meetings on the case since July last year. At that point he heard arguments from the Swiss banks that the case be dismissed, and hearings have been postponed since then.

Attempts at negotiating a settlement collapsed acrimoniously in June, after the banks made an offer of $600m over and above the amount found to be left in dormant accounts by the forensic audit being conducted under the auspices of Paul Volcker, former chairman of the US Federal Reserve. Lawyers for the victims described the offer as insulting. **John Authers, New York**

MICROSOFT

Appeal over evidence in public

Microsoft yesterday appealed against a judge's ruling that allows the public and media to watch government lawyers question Bill Gates, founder and chairman of the world's largest software company. The unusual legal wrangle between Microsoft and the media has already delayed Mr Gates' testimony – which was due to begin in Seattle yesterday – in the government's landmark antitrust case.

The legal debate threatens to delay the Microsoft trial itself for several weeks beyond its scheduled start next month. Based on an obscure law dating back to 1913, the court's ruling applies not just to Mr Gates but also to about 16 other Microsoft executives. Microsoft argues that Mr Gates' evidence will include highly sensitive commercial details which would normally remain secret in business litigation. However, the US Justice Department – which launched the lawsuit with 20 states in May – says that most of its questions will not involve commercially sensitive information. **Richard Wolffe, Washington**

Observer, Page 11

BORDER DISPUTE

'300 Ecuador troops in Peru'

Some 300 Ecuadorean troops are at nine different points inside Peruvian territory along the disputed border between the two countries, according to statements made by Peru's foreign relations minister in a secret session of congress. The "infiltration," as Peruvian government officials are calling it, is alleged to have affected 18sq km of territory almost 3km inside the border as defined by the 1942 Rio protocol, a border agreement between the two countries.

Eduardo Ferrero Costa did not reveal when the infiltration occurred or refer to any specific plan to dislodge the troops. He reportedly revealed a Peruvian counter-proposal for a "temporary limitation of sovereignty" in response to a suggestion by Momep, the multinational peace-keeping force, that the present demilitarised zone be extended. Ecuador continues to deny the presence, now or earlier, of its troops inside Peruvian territory. **Sally Bowen, Lima**

US PROPERTY VALUES

House prices outpace inflation

The value of Americans' homes is rising considerably more quickly than inflation in most of the nation's metropolitan areas, according to figures released by the National Association of Realtors yesterday. Nationally, the median home price rose to $131,100 in the April-June quarter, up 6 per cent from a year earlier, compared with an inflation rate in consumer prices of just 1.7 per cent in the same period.

Of the 132 metropolitan areas surveyed by the real estate group, only nine reported price declines. The worst came in Trenton, New Jersey, where the median dropped 5.4 per cent to $135,400; Albany, New York, down 3.9 per cent to $103,200; and Canton, Ohio, down 2.1 per cent to $92,400.

But 23 cities saw gains of 10 per cent or better. They were led by Charleston, South Carolina, up 19.7 per cent to $121,100; San Francisco, up 16.6 per cent to $329,400 and Bradenton, Florida, also up 16.6 per cent, to $104,900. **AP, Washington**

Poll looms as NZ coalition suffers split

By Terry Hall in Wellington and Richard Adams in London

New Zealand's coalition government collapsed yesterday, raising the possibility of a general election within the next few weeks.

Jenny Shipley, the prime minister and National party leader, now heads a minority government after four ministers from the New Zealand First party, the junior coalition partner, walked out of a cabinet meeting.

Winston Peters, the NZ First leader, led the apparently orchestrated move. Mrs Shipley appealed to each minister unsuccessfully to stay. A highly emotional Mrs Shipley then announced that the coalition government, which was formed 19 months ago, was over. She said she would head a minority government while disputes procedures were carried out over the next seven days, as required by both parties.

The coalition split comes only days after a pact between the two leading opposition parties, Labour and the left-leaning Alliance party. Opinion polls published this week showed a majority of voters' support for the two parties.

The latest survey gave Labour 46 per cent support, with Alliance on nearly 10 per cent. National has slipped back to the 32 per cent it had before last December, when Mrs Shipley led a party coup to become the country's first woman prime minister. NZ First polled just 2.2 per cent – below the 3.7 per cent margin of error.

The government has been hurt by a weak economy, caused by fall-out from the turmoil in New Zealand's main Asian export markets and the fall in world commodity prices. The Treasury yesterday said the economy faced "significant risks", and forecast a possible recession with falling output in the second quarter.

The coalition dispute was over whether the government should sell its majority stake in Wellington airport. It festered for days, leading to an acrimonious argument between National, which wants to adopt a more right-wing agenda, and Mr Peters, whose party is broadly opposed to asset sales.

After the four members of NZ First withdrew from the cabinet meeting, the remaining National ministers voted to sell the government's shares in the airport. The preferred bidder for the 66 per cent stake, valued at about NZ$100m (US$51m), is Infratil NZ.

If the dispute is not resolved, Mrs Shipley may be unable to govern without support from some NZ First MPs. National has 44 members of the 120-seat parliament, and NZ First 16. The combined Labour-Alliance opposition has 50 seats, with the remaining 10 held by independents and minority parties.

Police jailed by Indonesia court

By Sander Thoenes in Jakarta

Two police officers were sentenced yesterday for their role in a shooting that triggered the downfall of former president Suharto, but another investigation has come close to implicating Mr Suharto in a separate series of human rights abuses.

A military court sentenced two police lieutenants to four and 10 months in prison for disobeying orders and flouting procedures on May 12 but they were not convicted of actually killing four students at the Trisakti University. The shooting triggered riots that left more than 1,000 dead and forced Mr Suharto to resign.

The two officers, who appealed against the verdicts yesterday, were the most senior of 18 policemen on trial over the shooting.

The government and the army have responded to public pressure for a trial of more senior army and political officers by setting up a committee to investigate the shootings, riots, killings and rapes of May 12-14.

Ten officers have also been put on trial, and Lt. Gen Prabowo Subianto, son-in-law of Mr Suharto, and other senior officers have been called before a military council to explain their role in the kidnapping of political activists.

Newspapers yesterday quoted Gen Wiranto, the chief commander, as saying further senior military could be questioned because the council had found that Mr Prabowo had received a general order to investigate political activists. Only Mr Wiranto, Mr Suharto and Feisal Tanjung, a senior minister and Mr Wiranto's predecessor, could have issued such an order.

Security has been stepped up in Jakarta as Indonesia prepares to celebrate Independence Day next Monday AP

Canberra to unveil tax reform package

By Gwen Robinson in Canberra

Australia's conservative coalition government will today unveil a tax reform package intended to revive its sagging popularity before an early election expected in October.

John Howard, the Australian prime minister, launched a media blitz earlier this week to gain support for the tax package, which he promised would make "everyone a winner".

While no details have been announced, the government has indicated the reforms would focus on introduction of a 10 per cent sales tax on goods and services, to replace the existing range of wholesale taxes which extend up to about 40 per cent on a variety of items.

For Mr Howard's Liberal-National coalition, under growing pressure from the One Nation party in rural and blue-collar areas, the package would enable it to bestow benefits on low-income families, miners and farmers – the core of One Nation's support base.

The new sales tax would enable personal income tax cuts and handouts for low-income groups, officials said.

Australian exports would also benefit, with special exemption from the new sales tax, Tim Fischer, the deputy prime minister, said in the first official comment on the government's tax reform plan.

In the past six months, Mr Fischer's National party has seen its rural voter base rapidly eroded by One Nation's expansion, particularly in the Queensland state elections earlier this year, when One Nation picked up nearly a quarter of the votes.

In recent Australian history, however, the question of a sales tax has become a political albatross, causing Mr Howard's Liberal party to lose an election in 1993. "There is no way a GST [goods and services tax] will ever be part of our policy again," Mr Howard said in May 1995, after his party's defeat on the issue.

"Never, ever...it's dead. It was killed off by those voters at the election."

Now, having enjoyed a landslide swing in favour of the conservative coalition in the 1996 election and having restored the national budget to the black, Mr Howard has made consumption tax a central pillar of his re-election strategy.

Australia is one of the few western countries without any form of consumption tax and economists say it has created distortions in a system which relies too much on income tax.

But critics warn of the inflationary effects of a consumption tax and say it would discriminate against the poor, including pensioners and others on fixed incomes who would benefit less from accompanying tax cuts.

The coalition, however, has shaped its tax package as the engine for its coming election campaign. Public reaction to the tax reforms will, over the next few weeks, determine whether Mr Howard calls an early election or runs his full term to mid-1999.

Suu Kyi resumes travel standoff with military

By Ted Bardacke in Bangkok

Aung San Suu Kyi, the Burmese democracy leader, yesterday defied military authorities once again and attempted to travel to meet supporters outside the capital of Rangoon. Security forces stopped her near the same place where she engaged in a six-day standoff with the country's ruling junta last month.

Travelling in a friend's minivan, which is believed to be loaded with food and water, Ms Suu Kyi appeared to be preparing to stay at the site about 30km outside Rangoon, said members of her opposition National League for Democracy (NLD). She was accompanied by the same three people who sat with her during the last standoff – a 75-year old NLD executive committee member, U Hla Pe, and two drivers.

The move is the latest in a series of immediate problems for the junta, which has been beset by internal divisions over how to limit Ms Suu Kyi's effectiveness without engaging in serious discussions of political reform.

Military intelligence officials continue to question 18 foreigners, mostly south-east Asians, arrested last weekend for handing out pro-democracy "goodwill messages" to mark the tenth anniversary of a bloody crackdown by the military.

Eight nations – Australia, Britain, France, Germany, Italy, Japan, South Korea and the US – yesterday made a co-ordinated appeal for the government to open a dialogue with Ms Suu Kyi.

Ms Suu Kyi's safety on the roadside was the most immediate concern, diplomats said. Outside Rangoon she is exposed to thugs organised by hardline forces, whereas inside the capital she has protection from military intelligence.

Col Hla Min, a military intelligence official, recently said the government could no longer guarantee Ms Suu Kyi's safety because her calls for a tourism boycott and economic sanctions had made people angry.

Chinese price index falls 3.2%

By James Harding in Beijing

Deflation gathered pace in China last month, as prices slid further in the oversupplied Chinese market on weak domestic demand.

The government yesterday reported China's retail price index, the benchmark indicator of inflation, was down 3.2 per cent year-on-year in July, underlying how prices have continued to fall since the negative 3.0 per cent growth recorded in June.

Retail prices have now been falling consistently since October last year. In the first seven months of 1998, the RPI dropped by 2.2 per cent year-on-year, according to yesterday's report from the official Xinhua news agency.

The growing deflationary pressures in China have become an explicit concern of the Chinese leadership as it seeks to reinvigorate the country's slowing economy –. China's gross domestic product rose by 7 per cent in the first half of this year, below Beijing's economic growth target for 1998 of 8 per cent.

Zhu Rongji, China's prime minister, recently acknowledged for the first time the existence of deflation in the Chinese economy and said that in response "the central government has decided to take more active fiscal policies to raise more capital to strengthen infrastructure investment".

Consumption in August is likely to be affected by the flooding that has damaged a huge area of the country, economists say.

Yesterday, a ministry of agriculture official said that the flooding along the Yangtze valley, where more than 21m hectares of farmland have been left under water, is threatening China's ability to hit its grain production target for this year.

China has already blamed the flooding, which has claimed more than 2,000 lives and caused more than $5bn worth of damage, for reducing the summer grain harvest by 11m tonnes. The floods have hit areas which are crucial to China's production of rice and grain. As flooding has also worsened in the north of China over the last week, new concerns have been raised about potential damage to the wheat crop.

Separately, an official report showed yesterday that foreign-funded companies in China are still managing to increase exports, in spite of the impact of the continuing Asian financial crisis and a strong Chinese currency.

NEWS DIGEST

SOUNDINGS AT PARIS CLUB

Pakistan in tentative move to reschedule debt

Pakistan has made discreet and tentative soundings with the Paris Club of industrial nation creditors about a possible rescheduling of its official debt, but there is no agreement to begin formal negotiations, western officials said.

The move will fuel market speculation that Pakistan will seek a broad package of support from the International Monetary Fund once talks with that body get under way, probably before the end of the month.

The US has dropped its objections to IMF support in the wake of the extreme hardships caused by the sanctions imposed following Pakistan's nuclear test. But it is not clear whether it and other governments would be prepared to reschedule debt.

Under normal procedures Pakistan would also have to agree a formal rescheduling with its commercial bank creditors to obtain relief on official debt. With debts of $42bn and reserves sufficient to cover only three weeks of imports, Pakistani officials have said they need a package worth around $4bn to meet commitments over the coming year. **Peter Montagnon, London and Farhan Bokhari, Islamabad**

HONG KONG

Tourism income down 35.6%

Income from tourism, one of Hong Kong's biggest earners of foreign exchange, slumped 35.6 per cent in the first half of the year – ravaged by the impact of the Asian financial crisis that developed after China resumed sovereignty over the territory in July last year.

Receipts fell from HK$39.76bn ($5.13bn) in the first six months of 1997 – when travel agents, notably in Japan, were busily marketing Hong Kong's last days as a British colony – to just HK$25.59bn in the first half of this year. Asian tourists have been deterred by their own weak economies and devalued currencies, which render Hong Kong's prices doubly unpalatable. **Louise Lucas, Hong Kong**

BRUNEI ECONOMY

Growth target reduced

The sharp drop in oil prices forced Brunei to revise this year's gross domestic product growth projection to between 2.5 and 2.7 per cent, from 3.2 per cent forecast earlier and compared with 4 per cent in 1997, Selamat Munap, deputy finance minister, said in an interview yesterday.

Mr Selamat said the revision had little to do with the much publicised collapse of Amedeo, the Brunei-based construction company of the Sultan's younger brother, Prince Jefri, and a subsequent investigation into charges that financial mismanagement had cost the oil-rich sultanate billions of dollars.

Mr Selamat said the recent sharp fall in oil prices had translated into a 15 per cent drop in government revenue. **Sheila McNulty, Bandar Seri Begawan**

CHINESE COURT

Taiwanese jailed for spying

A Chinese court yesterday jailed a Taiwan businessman for four years for espionage, providing another potential source of friction between Beijing and Taipei.

A senior Taiwanese official expressed dissatisfaction over the decision, but said it respected Beijing's legal jurisdiction in the case. "We are not entirely satisfied with this verdict... But we respect the mainland's legal jurisdiction," said Wu Hsin-hsing of Taiwan's semi-official Straits Exchange Foundation.

Kou Chien-Ming, owner of a Taiwan publishing house, was arrested earlier this year and tried with three others. They were exempted from punishment for making "significant contributions" to solving the case, but were also convicted of gathering political, economic and military intelligence during business trips to China between June 1993 and March 1998, according to a report by the official Xinhua news agency. "The facts were clear. The evidence was irrefutable," Xinhua said. **James Harding, Beijing**

Winds of change blow through Chicago

The CBOT and the CME are finally getting to grips with electronic trading systems, writes Nikki Tait

Pat Arbor, chairman of the Chicago Board of Trade, stepped out of a Washington hearing this week to outline differences in electronic trading systems to reporters. Halfway through the explanation, a wry smile appeared. "Who'd have thought a few months ago that I'd have been talking about this?" he said.

Winds of change have been blowing through Chicago's futures industry with renewed force in recent weeks. To say that traders at the two big exchanges – the Board of Trade and Chicago Mercantile Exchange – see a floorless, screen-based trading future ahead of them might be an exaggeration.

But there is a widespread realisation that electronic trading systems will play a significant role in the months and years to come.

"Change is so constant – and the concept of electronic trading, which six months ago was strange, is far more accepted now," says Scott Gordon, CME chairman.

Mr Arbor points to the CBOT board decision – yet to be approved by members – to allow certain interest rate futures to be traded electronically during the day alongside the pit-based open-outcry system from next month. "We crossed the Rubicon," he says.

The question is no longer when or whether the Chicago exchanges will adopt electronic trading, but how.

In contrast to those of some European exchanges, the decisions have been piecemeal. CBOT's move on bond futures takes effect next month but is essentially a defensive step, driven by the threat of a rival electronic system for Treasury futures being devised by US broker-dealer Cantor Fitzgerald and the smaller New York Board of Trade.

More pro-active is CBOT's plan, announced last week, to launch electronic trading of five new agricultural commodities – sugar, coffee, cocoa, orange juice and cotton. Regulatory approval is required and some work will be needed to formalise contract specifications, clearing arrangements and so on.

However, Mr Arbor insists the products have been on CBOT's radar-screen for some time, and that many firms trading them in New York are also members of the Chicago exchange, implying that some business would flow to the Midwest.

Nevertheless, these are also the commodities that dominate the agricultural division of the NYBT, suggesting a degree of retaliation may have featured in CBOT's thinking.

The Chicago Mercantile Exchange has been moving along a similar track. It has brought a small amount of electronic trading to its existing floor, via the "e-mini" equity index contract, which can be traded on screens or by open-outcry, and a new "turn rate" financial contract.

At both exchanges, however, these moves are only opening manoeuvres. "It is clear that some customers want electronic trading for certain products," says Mr Gordon, although he adds that this "groundswell" does not appear to stretch to the agricultural pits.

He sees two objectives: to bring new products to the floor through links with the other exchange, and to get the CME's product range distributed globally. This goal lay behind his recent comment to members: "The CME is committed to creating a global electronic network through which customers around the world can access selected CME products around the clock."

Similar considerations, and the need to make efficient use of technology spending, also prompted the CME to approach the CBOT about pooling their technology platforms. The CBOT agreed to talk, say people involved, on condition that the discussions encompassed the prospect of a much-fuller alliance, or a form of merger.

While discussions are still taking place, existing alliances may be a stumbling block, at least temporarily. The CBOT is hooking up with Eurex, the German/Swiss electronic exchange, and both plan to disseminate each other's products on each other's screens next year. The CME is bringing on a different electronic system – based around the French Matif exchange's technology – later this year.

Mr Arbor says the CBOT will do nothing to jeopardise the relationship with Eurex but acknowledges talks are continuing. Mr Gordon says the CME "is happy to keep the door open".

All this does little to address the issue of falling seat prices, the exchanges' other big headache. As the likelihood of a switch to electronic trading has mounted, the value of these "admission tickets" has dived.

This, too, has set the exchanges thinking. In an effort to find a way of realising value for members, both have looked at possible changes to their current member-owned structures.

CBOT has toyed with the idea of turning its electronic trading arm into a separate corporate subsidiary and floating equity on the stockmarket; the CME has entertained broader "demutualisation" thoughts.

As with other aspects of their strategies, there seems to be a belated awareness that there is little time to lose. Mr Gordon expects an announcement shortly. "I think we'll do that easily in the third quarter," he says.

Patrick Arbor, CBOT chairman: 'We crossed the Rubicon'

Prices fall as stocks, yen stabilise

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

Prices fell yesterday, back-pedalling as world stock markets regained some of their composure and the yen gained ground against the dollar.

However, analysts said there was nothing to suggest the rug had been pulled from under the bond markets and recent bullish fundamentals were still firmly in place.

"The broader concerns [over Asia and Russia] will remain in the background and the economic calendars for major markets are light. So for the near term, bond markets remain very firmly underpinned," said Andy Bevan, senior bond strategist at Goldman Sachs.

In the US, Treasuries started lower on the combined effects of supply worries and the Dow Jones Industrial Average opening about 50 points higher.

In Europe, only UK gilts made any headway, ending higher on optimism that UK interest rates may have finally peaked after months of uncertainty.

US TREASURIES were lower at midday in the midst of the second of three auctions, and as calm returned to global markets.

By early afternoon the benchmark 30-year bond was down $\frac{9}{32}$ to $106\frac{9}{32}$, sending the yield higher to 5.635 per cent.

Among shorter term issues the two-year note was down $\frac{1}{32}$ to $100\frac{1}{32}$, yielding 5.340 per cent, while the 10-year note lost $\frac{3}{32}$ to $101\frac{17}{32}$, yielding 5.420 per cent.

With little fresh significant economic news expected until the retail sales and producer price index reports, overseas concerns continued to weigh on the US market.

"It's really a slow drift lower on a weaker dollar, a stronger stock market and concerns about the 10-year auction," said Tom O'Connell, senior government trader at First Chicago Capital Markets.

UK GILTS took heart from figures showing a slowdown in wages growth, which has been a key concern of the Bank of England in its inflation considerations.

The Bank, in its inflation report, said the UK economy was cooling and that although inflation may pick up in the next 12 months, it would fall back close to the Bank's 2.5 per cent target in two years' time.

Both factors were positive for gilts, with markets interpreting them as a sign that interest rates had peaked. The key futures contract, the September 10-year, settled 0.10 higher at 110.56. Volume was heavy, with 77,500 contracts traded.

Neil Parker, treasury economist at Royal Bank of Scotland, said: "I think all the evidence that we've had today is that the UK economy is slowing and inflationary pressure will be subdued." However, Mervyn King, deputy Bank governor, said it was too early to assume that rates were heading lower.

GERMAN BUNDS ended lower on profit-taking. The September 10-year future fell 0.20 points to 110.60 in volume of 388,000 contracts traded in Frankfurt.

Philippines to raise $500m

INTERNATIONAL BONDS

By Justin Marozzi in Manila and Vincent Boland in London

The Philippines yesterday named Goldman Sachs as the lead manager of a US dollar-denominated global bond issue and J.P. Morgan and Warburg Dillon Read as joint lead managers of a euro-denominated issue.

Edgardo Espiritu, finance secretary, said the two sovereign issues would raise a total of at least $500m. The first will be a global issue of dollar-denominated floating-rate securities and is targeted for next month.

This will be followed by a euro-denominated bond, the first in the new European single currency by a sovereign issuer from Asia.

"The two-phased programme addresses concerns on the volatile market environment and provides greater flexibility to meet our objectives," Mr Espiritu said. The European issue would introduce the Philippines' "credit story" to investors and diversify its lending base, he added.

The country last launched a sovereign issue in April with a well received $500m global bond, the first sovereign Asian issue since the regional crisis began in July last year. It was priced at 337.5 basis points over US Treasuries, but the spread has since widened to 575 basis points, after the recent flight to quality and setback in emerging markets.

Analysts believe the government will be seeking to raise much more than the official figure of $500m this time, following other signals from the department of finance.

Activity was light in the new issues market yesterday, with issuers staying on the sidelines. But some stability returned to secondary market trading and spreads in emerging market debt were steady at current very wide levels, traders said.

Liquidity was also reduced by US Treasury auctions, which analysts said were well timed to capture the current flight to safety.

FREDDIE MAC, the US mortgage agency, was one of the few issuers to tap the market, launching a $1bn, one-year bond that reflected continuing demand for defensive instruments in the current volatile market climate, according to a banker at Lehman Brothers, lead manager.

The issue attracted good international demand from central banks and investment management groups, he said.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Freddie Mac★	1bn	5.544#	100.00	Aug 1999	0.05	-	Lehman Brothers
Svenska Handelsbanken‡	200	(a)	100.028	Aug 1999	0.05	-	Merrill Lynch
Countrywide Home Loans‡	50	(b)	99.941	Aug 1999	0.05	-	Lehman Brothers
FRENCH FRANCS							
BNG(c)	300	zero	100.305	Sep 2008	0.325	-	BNP
SWISS FRANCS							
GECC(d)	200	2.50	100.80	May 2002	1.50	-	CSFB/Deutsche Bank
BNG(f)	100	3.25	101.55	May 2008	2.75	-	ABN Amro Bank(Zurich)

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor −6¼bp. b) 3-mth Libor +1bp. c) Redemption linked to CAC-40. d) Fungible with SFr500m. Plus 118 days accrued. f) Fungible with SFr300m. Plus 97 days accrued.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Aug 12	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.7261	5.28	−0.03	+0.23	+0.04	+0.01
	08/08	8.750	123.8008	5.60	−0.07	+0.16	+0.12	−1.22
Austria	07/00	5.875	102.4900	3.95	-	−0.10	+0.10	−0.17
	01/08	5.000	102.4700	4.67	+0.04	−0.09	−0.16	−1.05
[illegible]								

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	106.50	106.46	−0.32	106.61	106.38	83,875	142,936
Dec	106.03	106.00	−0.32	106.04	105.84	16,726	3,997

[illegible]

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	-	105.46	−0.32	-	-	0	18

US CORPORATE BONDS

[illegible]

INTERNATIONAL BONDS

Aug 12	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EIB	02/07	5.750	AAA	107.6500	4.64	+0.03	−0.21	+0.14
Spain	01/07	5.750	AA	107.4700	4.65	+0.04	−0.19	+0.15
Philip Morris	03/04	6.375	A	101.5200	5.05	-	-	+0.76
[illegible]								

10 YEAR BENCHMARK SPREADS

[illegible]

EMERGING MARKET BONDS

[illegible]

US INTEREST RATES

[illegible]

UK BONDS

FTSE Actuaries Govt. Securities

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

AFGHANISTAN CONFLICT ANXIETY GROWS ON NORTHERN BORDER AS RESISTANCE TO FUNDAMENTALIST MOVEMENT COLLAPSES

Taliban forces sweep into opposition's last redoubts

By Charles Clover

The Taliban, the Islamic fundamentalist militia, said yesterday it had captured two more strategically important towns in northern Afghanistan.

Town after town in Afghanistan has fallen this week before the fluttering white banners of the Taliban, which over the past month has swept through the last enclave of resistance in the north.

Yesterday the Taliban claimed to have taken Pol-i-Khomri, located at the entrance to two strategic passes through the Hindu Kush mountains which connect the north and the south of the country. It also announced the capture of Heiraton, a port city on the Oxus river, which is Uzbekistan's southern border with Afghanistan.

On Tuesday, the movement claimed the capture of Taloqan, capital of the northern province of Takhar, along with a string of towns in the central Bamian province.

These claims follow the decisive victory at the weekend when the Taliban captured Mazar-i-Sharif, the capital city of the northern coalition.

Opposition sources conceded loss of ground to the Taliban militia in Takhar, but vowed to launch a counter-attack.

If the Taliban claims are true, their gains would further isolate the coalition of northern ethnic militias, supported by Iran and Russia, which has put up a fight for four years but continues to lose ground against the superior numbers and funding of the Taliban.

The Taliban, which vowed to disarm Afghanistan's population and implement Islamic Shari'a law, is widely believed to receive support from Pakistan and the Arab world, though the Pakistani government heatedly denies supporting the movement. The Ukrainian government this week denied accusations that it had sold weapons to the movement.

Meanwhile, Iran claims that the Taliban forces are holding 11 Iranian government "envoys" hostage in Mazar-i-Sharif, and has asked the United Nations to intervene. The Taliban said it had arrested 35 Iranian truck drivers who had been delivering ammunition to Shi'ite Moslem factions.

Iranian radio also reported on Tuesday that the Taliban forces in the captured city of Mazar-i-Sharif had seized many young men and taken them in trucks to an undisclosed location.

But the official radio station of the Taliban said that "life had returned to normal" in Mazar-i-Sharif, and that "the people of Mazar-i-Sharif are thanking Allah for freeing them from the corrupt militia and now their belongings, honour, and lives are protected".

The Taliban has decided to allow aid workers back into Kabul, the United Nations said yesterday. In the culmination of a dispute last month the Taliban told 35 non-governmental aid agencies to leave the capital after they had refused to move their offices to a derelict college dormitory building.

But Afghanistan's northern neighbours in central Asia are growing apprehensive that the Islamic militia will not stop its northward march at the Oxus river, Afghanistan's northern border.

On Tuesday, a Russian foreign ministry official said that Russia "considers the escalation of combat operations by the Taliban... to be a real threat to the southern borders of the Commonwealth of Independent States, of which Russia is a member... [Russia] reserves the right to take all necessary measures to ensure the reliable protection of its borders."

A Taliban militiaman on the frontline 40km north-east of Kabul. Two more important towns were captured yesterday AP

Taliban units were spotted On Tuesday just across the river on Tajikistan's southern border.

But as the Taliban continues to advance, analysts say that its forces may overstretch themselves, leading to a repeat of the stunning defeat they suffered last year.

In May 1997 the Taliban took nine provinces in less than a month, including Mazar-i-Sharif, aided by a mutinous northern commander, General Abdul Malik.

But before the militia could consolidate its gains, the residents of Mazar-i-Sharif fell on the Taliban garrison, massacring up to 500 Taliban in the streets. A mass grave was discovered last year that is believed to hold the remains of an additional 2,000 Taliban fighters taken prisoner during the ill-fated offensive and subsequently slaughtered by northern troops.

Media campaign reveals Algerian infighting

By Roula Khalaf

A fierce and unprecedented media campaign against a top aide to Algerian President Liamine Zeroual has perplexed the country's political class and raised concerns of tensions within the regime.

The campaign, in anti-Islamist newspapers, has targeted Mohammed Betchine, Mr Zeroual's trusted adviser and former head of military security. He is considered a key figure in the political and military establishment, and has been a driving force behind Mr Zeroual's attempts to consolidate power since his 1995 election.

Algerian newspapers have long enjoyed wide leeway in criticising the government but until recently, hitting at the main pillars of the regime has been taboo. This began to change in June, when Nourredine Boukrouh, the leader of a small political party, began denouncing what he saw as the regime's political manoeuvres to remain in power through fake political and economic reforms. The odd part was that among top figures, he singled out Mr Betchine for blame.

Mr Boukrouh has been relentless in his attacks. This and the fact that newspapers have continued to publish him has led analysts to question whether he may have received a tacit approval from other power centres within the establishment.

Mr Boukrouh's attacks were soon reinforced by those of a university lecturer and anti-Islamist living in exile and who has been suggesting that a remark he made against Mr Betchine in 1995 was behind a death sentence he received in absentia this year on charges of involvement in Islamist terrorism.

Mr Betchine has remained silent. Government officials say accusations against him are unfounded. In newspapers mainly owned by him or by the government, advertisements have appeared in recent weeks by scores of civil associations eager to lend their support to Mr Betchine and denounce the "vile" attacks against him.

On the surface, the campaign against Mr Betchine could reflect rising frustrations with a regime perceived to have failed to stem corruption or promote better accountability.

But analysts also see in it a manoeuvre to undermine Mr Zeroual and perhaps dissuade him from standing for a second term in the presidential elections in 2000. It could also be a move to deflate Mr Betchine's economic and political power in case he tries to run for the presidency, if Mr Zeroual decides not to seek a second term.

Analysts see behind these immediate reasons more fundamental tensions between various political tendencies within the regime.

The newspapers publishing attacks against Mr Betchine are considered to be on the radical, anti-Islamist end of the political spectrum.

They view Mr Betchine as representing the nationalist-Islamic wing of the establishment, which has been asserting itself more strongly since Mr Zeroual's election.

NEWS DIGEST

ISRAELI BUDGET

Netanyahu backs plan to cut deficit to 2% of GDP

Israel's cabinet yesterday approved the 1999 draft budget framework which aims to reduce the budget deficit to 2 per cent of gross domestic product. Agreement came after a heated debate among ministers about how to fight unemployment, currently 9.3 per cent of the labour force and according to opinion polls, considered the most important issue.

Benjamin Netanyahu, Israel's prime minister, aware of the political fall-out if unemployment rises, pledged investment in retraining schemes. He also promised to increase the defence budget after lobbying from Yitzhak Mordechai, defence minister, who said Israel's military development would be otherwise undermined.

Next year's expenditure will total Shk173.8bn ($46.7bn) while revenues will be Shk7.8bn lower. Achieving the deficit target depends on the economy growing 2.5 per cent compared with an estimated growth of 1.5 per cent this year. The government will also have to agree Shk2.2bn of cuts, the next round of negotiations before the budget goes to the Knesset. Judy Dempsey, Jerusalem

EMBASSY BLASTS

Kenya makes bomb arrests

Kenya has made arrests in connection with the bomb attack on the US embassy in Nairobi, President Daniel arap Moi said yesterday. "A number of persons have been detained in relation to this incident and are providing useful leads into the circumstances surrounding the bomb blast," Mr Moi said.

At least 247 people were killed and more than 5,000 injured in the bombing on Friday. Ten people were killed and more than 75 injured in the simultaneous attack on the US mission in Dar es Salaam. Tanzanian authorities have arrested 14 people, but yesterday released one suspect who was found after checks to work for the United Nations refugee agency. Reuters, Nairobi, Dar es Salaam

IRAQI DISARMAMENT

Butler warns on monitoring

Richard Butler, chief UN weapons inspector, yesterday warned that Iraq's decision to suspend co-operation not only halted all efforts to disarm Iraq but also restricted the UN's weapons monitoring operations.

In a letter to the Security Council, Mr Butler said "such conditions significantly reduce the effectiveness of monitoring," which has not formally been suspended by Iraq. Diplomats said the letter, which followed a similar one from the International Atomic Energy Agency, the UN's nuclear watchdog, was aimed at trying to provoke a reaction from the Council following Iraq's move last week to freeze co-operation with the UN.

The influential Iraqi newspaper Babel said yesterday that Baghdad would reject any proposals for "partial solutions" to its stand-off with UN weapons inspectors.

Babel, owned by President Saddam Hussein's eldest son Uday, said Baghdad would not negotiate an agreement with the UN unless it lifted trade sanctions imposed on Iraq after its 1990 invasion of Kuwait.
Laura Silber, New York, and Reuters, Baghdad

REACTOR PROBLEMS FIVE PLANTS SHUT

France forced to step up power imports

By David Owen in Paris

A series of nuclear reactor problems has forced Electricité de France (EdF), Europe's largest electricity company, to step up its power imports.

Five of the company's network of more than 50 nuclear reactors are sidelined for technical reasons, with no guarantee they will be able to restart before the end of the year.

The state monopoly has consequently been importing electricity at a rate of between 3,000 MW and 5,000MW a day in recent weeks. This is about the size of three-to-five large power stations and is much higher than normal import levels. There is a good chance that imports from neighbouring countries, including Britain, will continue at similar levels while the stations remain off stream, particularly given France's much higher winter power consumption.

Britain and France are linked by a 2,000MW capacity interconnector, opened in the 1980s with the intention of enabling the two countries' grids to balance out peaks in demand. Traditionally, however, traffic over the cable has been largely one-way in favour of French electricity exports.

EdF has decided to close an additional three reactors for the summer, while demand is subdued, to ensure they can work throughout the winter without stopping for refuelling.

It says it will remain a net exporter of electricity even this year since it has long-term contracts with foreign consumers it is obliged to fulfil. In 1997, it was the European Union's biggest electricity exporter with 71.4bn kWh. Net exports typically reach between 65bn and 70bn kWh.

Three of the five sidelined reactors, among the newest in EdF's network, were closed because of a design flaw entailing the replacement of their supplementary cooling systems. The company says the problem with the other two reactors has now been dealt with, but it has yet to receive authorisation to restart them.

France is one of relatively few countries to have maintained its commitment to nuclear power in the wake of the accidents at Three Mile Island in the US and at Chernobyl in Ukraine.

Its network of nuclear reactors accounts for about three-quarters of the country's electricity production.

In common with other big EU electricity generators, EdF is gearing up for the phased opening of European electricity markets, starting on February 19 1999.

OECD Export Credit Rates

The Organisation for Economic Co-operation and Development announced new minimum interest rates (%) for officially supported export credits for August 15 1998 to September 14 1998 (July 15 1998 to August 14 1998 in brackets)

D-Mark	5.37	(5.46)	Yen	2.30	(2.10*)
Ecu	5.19	(5.27)	Peseta	5.51	(5.62)
French franc	5.53	(5.62)	Sterling	7.20	(7.13)
Guilder			Swiss franc	4.21	(4.21)
up to 5 years	5.30	(5.40)	US dollar for credits		
5 to 8.5 years	5.50	(5.60)	up to 5 years	6.47	(6.52)
more than 8.5 years	6.00	(6.06)	5 to 8.5 years	6.46	(6.52)
Italian lira	5.70	(5.82)	more than 8.5 years	6.52	(6.56)

These rates are published monthly by the Financial Times, normally in the middle of the month. A premium of 0.2 per cent is to be added to the credit rates when fixing at bid. Interest rates may not be fixed for more than 120 days.
* The Japanese Yen CIRR changed to 2.30 as of June 20 1998

Congress warned on 'resurrected fast-track'

By Nancy Dunne in Washington

Eight US environmental organisations have warned the Republican leadership of Congress against trying to pass the "old, failed fast-track" trade negotiating legislation, rejected last year but now scheduled for a vote in the House during the week of September 21.

The proposed trade bill "is the wrong legislation at the wrong time," according to the environmental groups. It establishes "new and stringent restrictions on the president's ability to negotiate environmental safeguards on future trade agreements".

Republicans have resurrected the bill, which gives the president authority to negotiate new trade deals, in order to please the business lobby in the run-up to elections. But it faces numerous complications.

The business community has been frustrated that so little of its trade agenda has been given attention. It is alarmed by the proliferation of sanctions bills passed by Congress hindering US companies in dealings abroad. Also, Republicans have been split on another business priority: an $18bn payment to the International Monetary Fund for new rescues.

President Bill Clinton, who has been pushing for new fast-track authority, has urged Republicans to put off the vote until next year. The trade unions oppose the current bill, which contains only weak provisions for labour, and might be tempted to put their money into anti-fast track television time rather than Democratic contests in November.

The environmental groups, with 7m members, form an important voter bloc. In a letter to senators, they claimed international trade rules had already undermined important environmental and public health laws in three areas:

- Endangered species: "In an unprecedented display of arbitrary power," a World Trade Organisation panel ruled against the US ban on shrimp imports from countries not protecting turtles. This would set "a dangerous precedent that could permanently subordinate global environmental protection to trade promotion".
- Pollution: Canada was forced to repeal a ban on MMT, a "toxic" gasoline additive, to settle a lawsuit filed by a US company under the North American Free Trade Agreement (Nafta).
- Forest Health: The US government has set weak pest control standards to comply with Nafta and WTO rules. This leaves US forests at risk from exotic pests brought into the country with log imports.

Chances of fast-track passage are hobbled by House-Senate disagreement on strategy. On the theory that past fast-tracks have been passed when attached to other more popular bills, the Senate finance committee has put all its trade bills in one package.

The package includes an African trade bill, shorn of most of its provisions, and passed by the House.

What remains is greater market access for textiles and clothing, which draws fire from those industries.

Enmeshed in the Senate package is renewal of the US Generalised System of Preferences, providing duty-free access for goods from developing countries.

This is not very controversial, and has proved useful for foreign policy purposes. The fact it has already expired removes one market-opening lever used against countries which benefit from it.

In the House, the legislation is likely to stand alone, though there have been suggestions it will be linked to IMF replenishment. Many Democrats support the IMF, but oppose fast-track. Given a choice, they will vote against fast-track.

Latin America sales disappoint drug companies

By Jenny Luesby in London

The rise of prescription drugs sales in Latin America is unlikely to deliver the growth hoped for by the world's pharmaceutical companies.

Identified by many leading drugs companies as the industry's growth hotspot, the region's drug purchasing is now decelerating, according to IMS, the healthcare information company.

In a survey of the world's 13 largest markets for prescription drugs, to be published today, IMS still identifies Mexico as the market experiencing the most rapid growth.

With sales up by between 22 and 25 per cent in the main therapeutic areas, Mexico's prescription drug sales rose 24 per cent in the 12 months to April.

World retail pharmacy purchases
12 months to March 1998

$m	US	Japan	Germany	France	Italy	UK	Brazil	Spain	Canada	Argentina	Mexico	Aus/NZ
Cardiovascular	12,963	7,402	3,616	3,584	1,987	1,585	997	1,116	1,021	590	245	626
Alimentary/Metabolism	11,066	6,709	2,361	2,036	1,297	1,471	1,130	778	644	615	667	474
Central Nervous System	13,993	2,404	1,749	1,836	990	1,337	859	741	726	486	362	381
Anti-infectives	6,908	4,702	1,257	1,839	1,126	486	763	514	295	493	631	291
Respiratory	6,954	2,550	1,305	1,229	686	1,149	787	612	383	289	364	342
Genito-urinary	4,505	833	876	774	446	443	609	192	227	226	166	118
Musculo-skeletal	2,542	2,771	681	661	477	445	557	242	178	237	206	82
Others	10,296	12,861	2,670	1,773	1,572	1,649	1,132	797	701	599	548	387
Total	69,228	40,342	14,577	13,404	8,627	7,925	5,746	4,686	4,167	3,357	3,169	2,621
% Change*	11	-3	4	3	6	7	2	10	12	4	24	5

Source: IMS Health
* Changes exclude currency movements

However, the growth has still not restored the market to its 1994 levels. The peso crisis led to a sharp fall in Mexican drug sales.

With many prescription drugs bought from local chemists, without prescriptions, and paid for privately, the market is far more vulnerable to economic swings than those which enjoy greater state provision.

In volume terms, prescription drug sales were still 10 per cent lower in Mexico last year than in 1994, says IMS, which predicts that volumes will finally be restored to former levels by 2002.

Drugs companies have, however, made price gains in Mexico. Initially, they introduced heavy discounts to try to encourage sales in a declining market. Prices fell by 16.2 per cent in 1995. But prices have since risen by 23.8 per cent in 1996 and 19.2 per cent in 1997, outstripping inflation.

But IMS forecasts declining prices in real terms this year.

Meanwhile, the imposition of strict fiscal measures has caused a sharp slowdown in prescription drugs sales in Brazil and Argentina, to 2 per cent and 4 per cent.

Thus, the double-digit growth seen in all three of the leading Latin American drugs markets in recent years has now ended.

Elsewhere, the boost to US drug sales provided by the take-off in television advertising continues. Sales of central nervous system drugs, including anti-depressants and sedatives, grew by 18 per cent in the year to April, or $2.5bn.

This class now accounts for a fifth of all prescription drug sales in the US, with Prozac still the bestseller.

Meanwhile, growth across the five main European markets remained at 5 per cent, taking the region's total spend to $49.3bn.

The Japanese market declined by 3 per cent, with the greatest falls, of 7 per cent, in anti-infectives and respiratory drugs.

WTO declares Japan's fruit import tests illegal

By Khozem Merchant in Tokyo

Japan's ministry of agriculture yesterday declined to comment on a World Trade Organisation interim ruling that its tests on imported apples, cherries, walnuts and nectarines act as an illegal trade barrier. The WTO's dispute settlement panel, which issued the interim ruling in favour of US fruit importers, will issue a final decision in October.

Charlene Barshefsky, US trade representative, said: "The WTO case reflects our concern about Japan's use of groundless testing requirements that serve only to restrict market access for US agricultural products."

Japan demands repeated testing of existing quarantine treatments each time a new variety of an already approved product is exported, she said, adding that the additional testing had "no scientific basis and serves as a significant barrier to market access".

US exporters are likely to welcome the decision, which will assist their attempts to penetrate the Japanese market. Japan opened its markets to US Golden Delicious and Red Delicious apples in 1994 after intense pressure from Washington. But after healthy imports of 8,935 tonnes of apples in 1995, worth Y1.46bn ($10.4m), sales sank to 105 tonnes last year (Y17m), a fraction of the annual Japanese harvest of apples, which exceeds 950,000 tonnes.

Some leading Japanese supermarkets have stopped stocking US apples. This is partly due to Japanese preference for sweet apples. US apples are less sweet than their Japanese rivals and also suffer from a widely held perception in Japan that they are soaked in preservatives for the journey across the Pacific.

The US is the biggest exporter of foods to Japan, commanding 28.7 per cent of the domestic market, worth $13.6bn in 1997.

Among the notable imported fruit successes have been cherries, imports of which have risen from 5,814 tonnes in 1991, when the market was liberalised, to 12,467 last year. US cherries, like US apples, are also less sweet than Japanese ones but are cheaper.

SINGLE EU CURRENCY LABOUR LORD TO WRITE TO TOP COMPANIES SEEKING SUPPORT AND CASH

Business chiefs campaign for euro

By David Wighton, Political Correspondent

Lord Hollick, the Labour peer and chairman of United News & Media, is to head a group to co-ordinate the campaign for sterling's entry into the single European currency. The business-led group, to be launched in the autumn, is expected to take over the lead role in the campaign from the European Movement, which some senior Labour figures fear is seen as too uncritically pro-European.

Lord Hollick is writing to leading companies urging them to endorse the group and contribute to its £15m ($24.7m) campaign budget. He is urging chairmen to put resolutions to boards supporting a pro-euro position and promising financial support. One of the main aims of the campaign will be to convince the City of the dangers to London's position as a financial centre if sterling stays out for too long.

The group's board is expected to include other pro-European executives such as Niall FitzGerald, chairman of Unilever, along with representatives of the City and small business.

Although business-led, the campaign will have backing from senior members of the three main political parties. Kenneth Clarke, the Conservative former chancellor of the exchequer; Menzies Campbell, the pro-European Liberal Democrats' foreign affairs spokesman; and Giles Radice, the Labour chairman of the European Movement, are all signed up.

The board will be supported by a team including Philip Gould, one of Labour's chief election strategists; Jane Bonham-Carter, the Liberal Democrats' former campaign manager; and Colin Byrne, a former aide to Peter Mandelson, the chief trade and industry minister.

The team will also include staff from the European Movement and the Centre for European Reform.

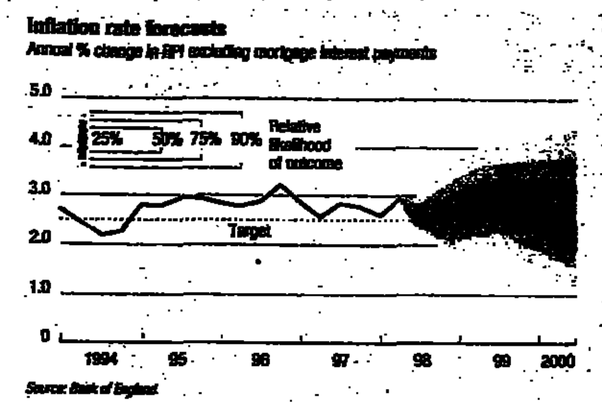
The formation of the group partly reflects concern that the European Movement is seen as too sympathetic to federalism and uncritical of Brussels. "Until now the Europhobes have been allowed to paint pro-European campaigners as unreconstructed federalists," said a member. "This will be about Britain being at the centre of Europe but pushing for reform."

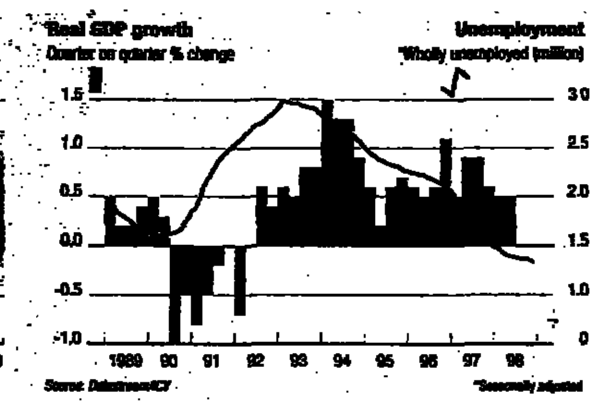
Lord Sainsbury, one of the European Movement's main financial backers, was involved in forming the group before his recent appointment to the government.

Pro-Europeans have also been concerned at the financial resources available to Business for Sterling, the anti-euro group launched in June. The campaign has backing from businessmen such as Sir Stanley Kalms, chairman of the Dixons retail chain; Sir John Craven, chairman of Lonrho; and Lord Hanson. "Business for Sterling may be the old warhorses of British Industry, but they are wealthy warhorses," said a supporter of the new group.

THE ECONOMY

Central bank fails to offer base rate assurance





By Robert Chote and Richard Adams

The Bank of England, the UK central bank, warned yesterday that inflation is likely to remain above the government's target rate for most of the next two years, despite a sharp slowdown in the economy.

Publishing its latest quarterly Inflation Report, the Bank disappointed business leaders who were looking for a clear declaration that interest rates have peaked.

"It would be dishonest of me to pretend that I can give you an assurance that interest rates will only head down," said Mervyn King, the deputy governor responsible for monetary stability. "It's the inflation picture that will drive our decision."

Most economists believe rates have peaked, although a sharp fall in the pound or unexpectedly strong earnings growth could prompt another change in sentiment.

The Bank expects underlying inflation – excluding mortgage interest payments – to drop back towards the government's 2.5 per cent target this month, before rising to almost 3 per cent by the middle of next year and falling back to the target again by mid-2000.

This is a more pessimistic outlook than the Bank predicted in May, when it forecast that inflation would remain below the target for the next two years. The deterioration reflects unexpectedly strong earnings growth and modest effects from the introduction of the minimum wage and the government's spending plans.

The Bank welcomed figures from the Office for National Statistics yesterday, showing earnings growth had decelerated to 5 per cent in the year to the second quarter. Private sector earnings growth slowed in part because of lower bonus payments in the financial services sector.

But there was evidence of labour market tightening. Jobless figures showed that the number of people unemployed and claiming benefit fell 26,000 in July to 1.3m. The provisional estimate showing a rise in unemployment in June was also revised to show a 5,000 fall.

The Bank warned that unemployment had fallen to a rate inconsistent with stable inflation. "As demand growth slows, unemployment is likely to rise, reducing cost pressures in the labour market," it said.

The Bank now expects a harder landing for the economy. It expects the annual growth rate to drop to a little over 1 per cent early next year, compared with almost 2 per cent predicted in May. "Their view implies that the economy will skirt with recession but just avoid it," said Michael Saunders, analyst at investment bank Salomon Smith Barney.

The Bank is more pessimistic about growth because business surveys point to weaker investment.

Siemens targets rivals in drive to sell plant

By Sheila Jones in Manchester

Siemens, the German electronics company which last week announced the closure of its factory in north-east England, yesterday launched a global marketing campaign in an attempt to find a buyer for the £1.2bn ($1.9bn) plant.

The company, which said the closure was because of plummeting semiconductor prices, has sent brochures and videos to 500 companies, including market leaders such as Motorola of the US, Fujitsu of Japan and Samsung of Korea.

Adolf Scheibe, the plant's managing director, described the sale as "a first class business opportunity for other manufacturers".

It was open to "imaginative solutions" and welcomed any serious approach. "There is no point talking about a price at this stage, as it will obviously be the major point in any negotiations," the company said.

But it faces an uphill battle in a depressed industry in which Siemens is losing money. It has already spent a year trying to find a buyer.

"But the difference now is we have got government support which gives it a different dimension," said Ross Forbes, communications manager.

Siemens won £44m in UK government aid to open the plant less than two years ago. It has told ministers it will return the money. The government has said its priority is to find a buyer.

Siemens will start to move out machinery and wind down the factory, near Newcastle upon Tyne, at the end of next month. It is due to be completed on January 31.

Mr Scheibe added: "This is a world-class facility which has the most advanced semiconductor manufacturing equipment. Our people here, too, are the most highly trained and motivated team I have ever worked with. The marketing campaign has support from the very top."

The company has also installed a marketing team at the plant, including experts from the Northern Development Company, the Invest in Britain Bureau and the government's trade and industry department.

High pound hits film industry projections

By Alice Rawsthorn in London

The strength of the pound is deterring Hollywood studios from shooting big-budget movies in the UK, casting a cloud over the government's hopes of sustaining the revival in the film industry.

The steep increase in US production investment was one of the chief reasons for the industry's resurgence in the mid 1990s. Hollywood blockbusters – including *Saving Private Ryan*, Steven Spielberg's US box office hit, and *The Avengers*, the $60m Warner Bros picture released worldwide tomorrow – provided half of the £465m ($767m) invested in production last year.

But the pound's strength has raised the cost of UK filming when rival production centres, notably Canada and Australia, are comparatively cheap because of the weakness of their currencies.

Steve Norris, the British film commissioner, responsible for promoting the UK as a production base for overseas film makers, says the level of US investment this year is lower than in the same period of 1997.

"The UK still has enormous advantages in competing for big Hollywood movies because of our great studios and world-class crews," he said. "But the strong pound isn't making life easy."

UK production studios have remained busy despite the shortfall in US investment. They have kept their sound stages busy with television commercials and pop music promotions. These tend to use fewer post-production resources, such as editing and visual effects facilities, which makes them less profitable.

There is no indication of a long-term withdrawal of Hollywood investment. 20th Century Fox is filming *Entrapment*, in England and Scotland. Mr Norris hopes that MGM/UA will film the next James Bond movie in the UK this year.

Editorial Comment, Page 11
Lex, Page 12

Pioneering hairdresser is a cut above the rest

Clive Barrett's business was transformed after he opted for the approach touted by a business think-tank, says **Brian Groom**

Clive Barrett's story illustrates so well the impact a new management philosophy can make that it is almost too good to be true.

Mr Barrett is chief executive and majority owner of House of Clive Reflections, a chain of 18 hairdressing salons. His story begins with his attendance, along with nine other "pathfinder" companies, at a pilot series of workshops in Bristol, the west of England city. They preached the "inclusive" approach to business, promoted by the Centre for Tomorrow's Company, a business think-tank.

Initially he was unimpressed. Each participant was given newspapers, magazines, scissors and glue and asked to make a collage showing where he wanted his business to be in five years. Mr Barrett found it boring and useless.

"I got home quite unmoved but [later] I realised I had pasted on that board my innermost thoughts about what today's hairdressing company should look like," he explains.

Suddenly he saw that his business – based on a cheap, fast service and successful for the first 15 years since its inception in 1971 – had been declining. He consulted customers and staff on what was needed and found the market had moved on. Customers wanted a more stylish experience and were prepared to pay more for it.

He embarked on a costly redesign of his salons. A customer care training programme was introduced and salaries increased. The redesigned shops are taking 18 per cent more than the old ones.

Not all the companies in Mr Barrett's group had a life-changing experience. But the results were encouraging enough to offer a fair chance of success as the approach is extended nationally.

The inclusive approach was first developed by chief executives who took part in the Royal Society of Arts' inquiry into Tomorrow's Company, the results of which were published in 1995.

Successful companies, it found, focused on all who contribute to the business – customers, suppliers, employees, shareholders and the community – rather than solely on profit per share.


Hair today: Clive Barrett says there are no quick fixes Jay Williams

They defined their purpose and values and developed systems for measuring the development of those key relationships.

The inquiry led to the creation of the Centre for Tomorrow's Company, with founder members including Unipart, the vehicle components manufacturer; Anglian Water, a privatised regional water supplier; and the John Lewis Partnership retail chain. A central tenet is that businesses learn from each other – hence the pathfinder groups.

The scheme attended by Mr Barrett tested four assumptions: that companies face the same fundamental issues; that a company already knows 80 or 90 per cent of what it needs to know to improve performance, albeit scattered across the company; that the remaining 10 or 20 per cent can be learnt from other companies; and that if you gather 10 companies in a structured dialogue, they will find the insights needed for improvement.

The participants, with workforces ranging from 20 to more than 2,000, included subsidiaries of NatWest (the Insurance and Life & Investment companies); Jungheinrich, a subsidiary of the German lift truck manufacturer; Ernest Ireland Construction, part of Mowlem; Rolls-Royce Military Aerospace; Wheale Thomas Hodgkins, an executive recruitment firm; and House of Clive Reflections.

Jungheinrich gathered executives for a weekend strategy meeting which led it to reduce 200 company initiatives, on everything from outsourcing to process re-engineering, to a more manageable 10.

NatWest Insurance Services, already creating a business excellence model, held focus groups with staff as a result of the workshops and included suppliers in its mission document.

Some lessons have been learnt – including the importance of the chief executive's full backing of the scheme. Lack of formal structure, it was found, frightened some companies. But there lay the opportunity too. Mr Obolensky quotes William Blake: "I must create my own system, or be enslaved by another man's."

Mr Barrett could not agree more. "There are no quick fixes or simple formulae. We had to invent our own, involving all our people."

Would-be students avoid traditional subjects

By Simon Targett, Education Correspondent

Universities are facing an exodus of students from mainstream academic subjects as the market booms for more vocational and combined courses, the Universities and Colleges Admissions Service reported yesterday.

Some universities are scrapping traditional courses such as architecture and the physical sciences and starting courses designed to appeal to students paying £1,000 ($1,650)-a-year tuition fees for the first time this year.

Several former polytechnics (colleges outside the university system) which have been given university status will be offering a wider range of courses than traditional universities by 1999.

They are trying to broaden the definition of higher education by embracing non-traditional subjects such as hospitality management, physiotherapy, media studies and tourism.

In a survey of university applicants, Ucas found that engineering suffered a 28.7 per cent drop in applications over three years, falling from 122,332 in 1995 to 87,239 in 1997.

The physical sciences saw a 25 per cent drop and the biological sciences fell by 12.6 per cent. Professional courses also suffered, including medicine and dentistry, down 1.7 per cent, and architecture, down 31 per cent.

But combined courses, frowned upon by academic purists, have grown in popularity. Courses which combine science with a social studies or arts subject have seen a 34 per cent increase in applications within one year, rising from 44,557 in 1996, to 60,026 in 1997.

Business and administrative studies saw an 8.6 per cent growth in applications between 1996 and 1997 and, after social studies, remains the second most popular subject group.

Tony Higgins, chief executive of Ucas, said the "move away from traditional subjects" could be the result of a preference for candidates with more vocational qualifications.

NEWS DIGEST

NORTHERN IRELAND

$2m package unveiled to help victims of violence

A £1.3m ($2.1m) fund to help the victims of violence in Northern Ireland was announced by the UK government yesterday. Adam Ingram, minister responsible for victims of violence, did not rule out the possibility of money going to relatives of terrorists but said decisions would be made on the basis of each application. The package includes an educational bursary scheme worth £250,000 to provide assistance for children and young adults who have lost parents; £1m towards support to victims suffering financial hardship; and £60,000 for schemes to help the young, elderly, housebound and disabled. Families Against Intimidation and Terror welcomed the initiative. Victims of Trauma, another support group, called for the aid to be made available to all victims, including relatives of murdered terrorists.

PAY TELEVISION

Flextech granted review

Flextech, the pay-TV group, was yesterday granted a judicial review [the right to make a legal challenge] of a ruling by the Independent Television Commission that changed the way cable and satellite channels are sold. Flextech, owner of channels including Living and Bravo, is challenging the ITC's decision to ban agreements that forced customers to subscribe to large numbers of channels. The news came as Sir Robin Biggam, chairman of the ITC, said he was prepared to talk to Flextech to clarify the watchdog's ruling. In papers lodged at the High Court earlier in the week, Flextech said it had been unable to clarify the implications of the ITC's ban, despite repeated requests. **Cathy Newman, London**

FOOD SCARE

Research 'was misleading'

The furore over the safety of genetically modified foods that broke out this week was based on misleading research, it emerged yesterday. The Rowett Research Institute said that Dr Arpad Pusztai, the scientist who had supervised the study, was suspended from the project and would now retire from the institute. "The institute regrets the release of misleading information about issues of such importance to the public and the scientific community," it said.

The findings, which had prompted demands by some politicians for a ban on the sale of genetically modified foods, were greeted as the first evidence that genetically modified foods could be harmful to health. The research suggested that eating potatoes modified with a gene that produces a powerful insecticide could damage the immune system of rats. **Vanessa Houlder, London**

PRIVATISED TRAIN COMPANIES

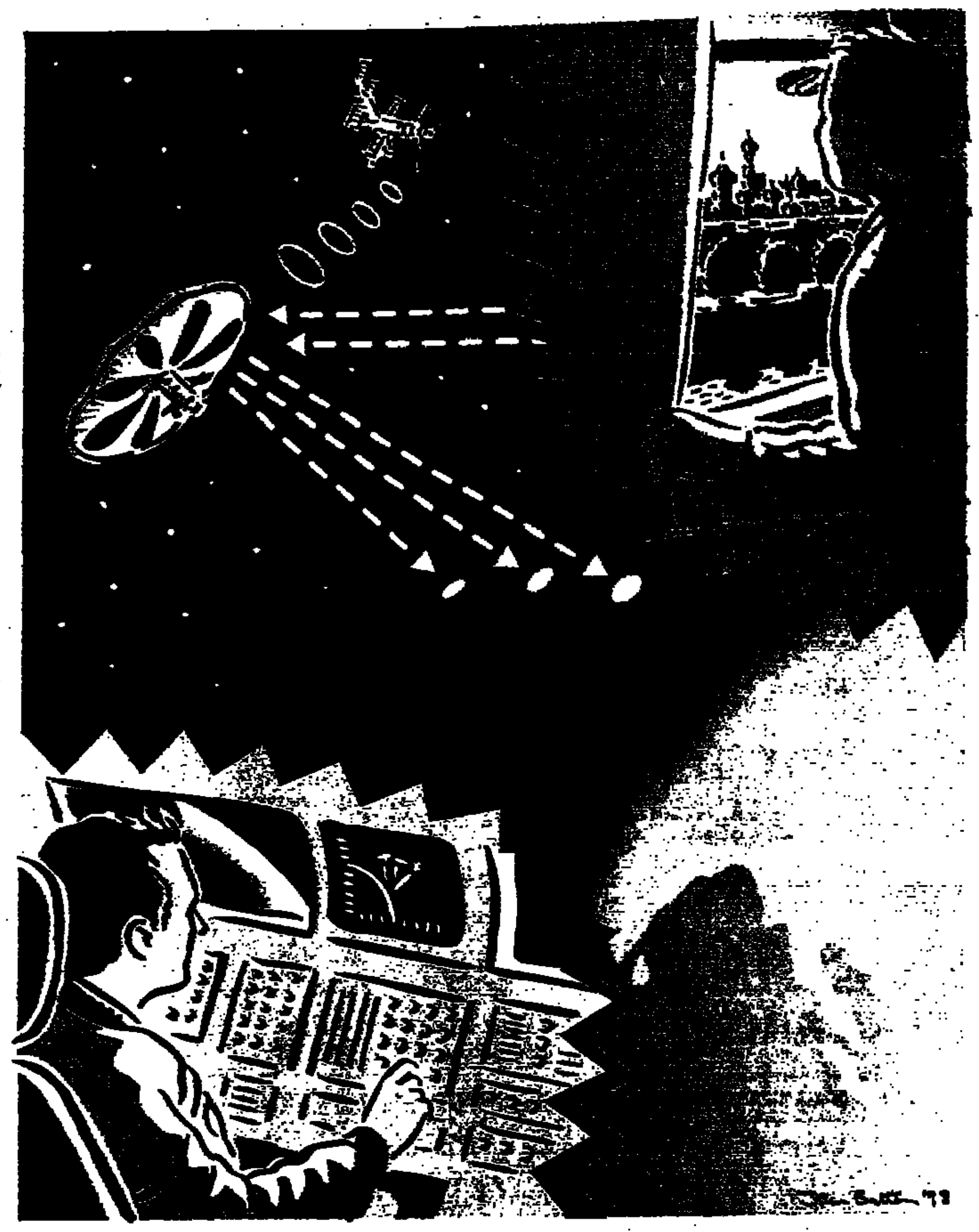
Watchdog seeks improvement

John O'Brien, the rail franchising director, has ordered train operating companies to submit detailed action plans to improve their performance. The move coincides with publication of new figures by the Office of Passenger Rail Franchising, the industry regulator, showing a widespread deterioration in punctuality and continuing customer dissatisfaction with services on the privatised national network. Mr O'Brien praised increases in service frequency and seat capacity by some operators. But he said that Opraf's latest quarterly performance monitoring showed punctuality had declined on 48 routes and had improved on only 16 in the year to June 27. **John Griffiths, London**

TECHNOLOGY SOLAR REFLECTORS

Experiment blurs the line between night and day

Miranda Eadie explores the Russian plan to launch a giant mirror into space so sunlight can be reflected on to dark corners of the globe



It is the stuff of tabloid sensation: a Russian experiment to "light up the sky" from space.

When news of the project, planned for November, reached the British popular newspapers last month, their reaction was typical of the mid-summer "silly season" when news is scarce. Doom-laden warnings of a future where "Man plays God", night is banished and the planet's ecosystem is imperilled by "mad professors" duly followed.

The Russian scheme may sound like pie-in-the-sky, and there is plenty that can still go wrong, but it is serious. They intend to direct a giant beam of sunlight from a 27m-diameter solar reflector orbiting in space on to selected cities, including London, Frankfurt and Brussels.

The spot of reflected light, about 6km wide, would shine on each city for five minutes and would be as bright as 10 full moons. If all goes well, it will happen just before dawn on November 9.

The experiment, known as Znamya 2.5, would be the second in a programme that aims to culminate in the launch of a space-based illumination system consisting of a cluster of 12 reflectors – each 200m in diameter. Together these would shine as brightly as 100 full moons and could bring light to five large cities, according to the Space Regatta Consortium (SRC), a group of Russian organisations that created the project and is based in Korolev, near Moscow.

"The main aim of the experiment is to test a technology that will enable both the deployment and control of large structures in space," says Christopher Faranetta, deputy managing director of Rocket Space Corporation Energia's US office in Alexandria, Virginia. Energia, also based in Korolev, is the project's main sponsor.

The long-term aim is to light up cities where there is no terrestrial power infrastructure, such as in remote areas of China and India. The technology could also be applied to solar sails, which may one day be used to power spacecraft on interplanetary or even interstellar missions without having to burn rocket fuel.

The idea of artificial light from space has particularly alarmed astronomers and environmentalists. Astronomers say it would hinder their observations of the night sky. Environmentalists say it would disturb animal and plant cycles and upset human biorhythms. Some even fear it would cause the Arctic ice to melt. The UK's Institution of Lighting Engineers, which promotes better lighting for safety and comfort, says the concept is "polluting and unnatural".

But Vladimir Siromiatnikov, Energia's technical engineer for the mission, says such complaints are based on "hysteria and ignorance". He has set up a web site (*http://src.space.ru*) to clarify and defend the project.

"During the November experiment, illumination will be carried out for a very short period of time [approximately three to five minutes] and only during the pre-dawn hours, thus posing no threat whatsoever either to the environment, to the population, or, more especially, to those involved in celestial observation," says Prof Siromiatnikov.

Any future space-based illumination system would most probably be used initially in the polar and sub-polar regions during the polar night "day-hours". He says astronomers do not usually observe the night sky at this time. Because illumination would occur before sunrise and after sunset – when there is already a lot of outdoor activity – it should not pose any threat to human biorhythms or other events, he says.

As for the Arctic ice, Prof Siromiatnikov says the temperature rise within the illuminated area (compared with that caused by the moonlight) is nominal, since the cumulative size of the illuminated areas is infinitesimally small on the global scale. The moon, he says, contributes to an approximate 0.1°C increase in the earth's temperature.

The Znamya 2.5 reflector will hitch a lift on the automated Progress Cargo Vehicle (Progress M-40) when it takes supplies to the Russians' Mir space station in September. It will be deployed several weeks later when the Progress M-40, carrying rubbish away from Mir, is undocked (see panel).

Preliminary estimates show that an experimental illumination system from space could bring profit in two to three years. But this assumes that expenses on conventional lighting in big cities covered by the service could be halved.

Prof Siromiatnikov says the probability of the final part of the project being realised depends largely on finance. One of the aims of Znamya 2.5 is to encourage other organisations to invest. So far the European Space Agency (ESA) and the French space agency (CNES) have shown interest.

Mr Faranetta believes realisation also depends on the environmental impact. "If it was proven that there would be a negative environmental impact the project would not go ahead," he says.

Mr Faranetta is adamant that it is worth developing the technology being tested on Znamya 2.5. It would solve two of the big problems that have held up the use of large structures in space: how to deploy them and how to control them. "Once this has been mastered the technology will have several applications – for example on solar sails, on giant space telescopes, and even on satellites being used to produce power from space," he says.

Znamya 2.5: how the giant reflector will work

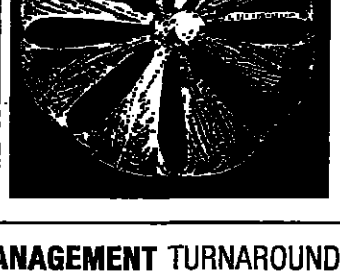
The Znamya 2.5 reflector is made of a very thin (seven microns thick) aluminised plastic similar to Mylar, an extremely tough synthetic fabric, and will be folded into a small package for transportation into space.

Once in position, the reflector will be spun as it is released. The centrifugal force should enable it to unfurl into a flat surface with a very large area.

Cosmonauts will observe the deployment from a safe distance onboard Mir, and then use teleoperation to point the reflector at specific targets on earth. "They will control the reflector much like a stage hand controls a giant spotlight," says Energia's Mr Faranetta.

By carefully controlling the angle of the reflector, it should be possible to keep light shining on one city for a particular length of time. The reflector will be orbiting Earth at something like 27,500kph, and if the angle was not constantly altered to compensate for this movement, it would resemble a star or satellite which would simply flash as it passed overhead.

This is what happened during Znamya 2 (pictured), the first



experiment in the programme, which took place in 1993 and prompted many reports of a UFO sighting. "This time, besides controlling the pointing, we are trying to get the word out before the experiment takes place so people are not surprised by what they see," says Mr Faranetta.

With a 27m diameter, the reflector on Znamya 2.5 will be 5m wider than its predecessor, and its panels will be bellied at the edges to prevent gaps appearing when it is deployed.

The next stage, Znamya 3, will involve a 70m solar reflector with an integrated, rather than divided, design. SRC believes it should be ready for flight by 2000. The final system, with the cluster of 12 reflectors, should be ready sometime between 2003 and 2015.

Photograph: Energia

MANAGEMENT TURNAROUND AT SAURER

Following an innovative thread

Peter Marsh looks at the restructuring that transformed the world's largest textile equipment group

At many German manufacturing companies, the machine shop is considered sacrosanct. But not by Heinrich Fischer, a no-nonsense Swiss manager who has led the effort to sharpen up the substantial parts of German industry under the control of Saurer, the Swiss company that is the world's biggest textile equipment group.

Mr Fischer, Saurer's chief executive since late 1996, is considering plans to spin off as a management buy-out the machine-shop operations of Schlafhorst. This is the Mönchengladbach-based spinning machine maker that Saurer bought in 1991, almost crippling the company before last year when it was restored to profits after several years of losses.

While many industrial companies, particularly in Germany, consider machining to core to their operations, Mr Fischer says: "I don't know about strategic [machined] parts. I know only of parts that can be made for a lower cost."

This illustrates the tough approach of Saurer to putting Schlafhorst, along with the other divisions of the company, back on their feet.

In 1995 Saurer suffered a SFr58m ($38m) loss on sales of SFr1.7bn, much of this due to a long slump in the textile equipment industry. Another factor was overmanning and poor labour practices in many of Saurer's manufacturing operations.

In the early 1990s, Saurer was considered one of Europe's sickest industrial companies. Many of the problems were linked to Schlafhorst.

During the late 1980s, Schlafhorst was considered one of the world's most powerful textile machine makers, with annual sales reaching DM1.6bn ($880m) in 1988. But Saurer's takeover of the company came just as the world's textile equipment industry plunged into its worst recession since the second world war.

Saurer's textile machine division today accounts for three-quarters of Saurer's total SFr1.9bn turnover. It also makes vehicle gear boxes and supplies surface treatment services in divisions run independently.

In textile machines, the company concentrates on systems for spinning or twisting yarn. Some 90 per cent of Saurer's manufacturing of this machinery is in Germany. The rest is based mainly in Switzerland.

The better times at Schlafhorst and Saurer's other German subsidiaries have contributed to a profits turnaround at the group. Last year Saurer's net earnings leapt 158 per cent to SFr131.2m from SFr50.8m in 1996. The company's shares have jumped 70 per cent against the rest of the Swiss stock market over the past two years.

Mr Fischer was brought to Saurer by Ernst Thomke, the Swiss "company doctor" who revamped the Swiss watch industry in the 1980s. Both men joined the ailing textile machine maker in 1995 from Oerlikon-Bührle, the Swiss industrial conglomerate. At Saurer, Mr Thomke acted initially as both chairman and chief executive before passing on day-to-day responsibility for running the company to Mr Fischer.

The new approach sharpened the divisions between the different parts of Saurer's textile machine building operations. This fitted in with making individual parts of the company more responsible for development of specific machines and for sales, says Mr Fischer.

Another tactic was to reduce fixed costs by selling parts of the manufacturing operations. Three divisions at Schlafhorst, employing 300 people and involved with packaging and making power and control systems, have already been spun off to management buy-outs. The machining activity, employing 1,000 people, will probably follow in the next two years.

Linked to this has been a policy of "outsourcing" production of many of the components used in Saurer's machines. The group has 35 new suppliers, mainly in Italy, Portugal, Spain and the Czech Republic, where manufacturing costs are lower than in Germany and Switzerland.

The changes have meant a lot of "partnering" with suppliers. "To make outsourcing work, you need not just good negotiators but intelligent engineers," says Mr Fischer.

With these changes have come big employment reductions and increases in innovation.

The company promises that from the end of 1999, 80 per cent of its equipment sales will come from products less than two years old.

TECHNOLOGY WORTH WATCHING

Cholesterol test to help predict risk to heart

A test due to be launched in North Carolina next month will allow doctors to predict exactly which patients with higher than normal cholesterol levels are at risk of heart disease and who will benefit from cholesterol-lowering drugs, writes *Elizabeth Sweetenham*.

Cholesterol, a substance important for cell membranes, is transported around the body in the form of lipoproteins. These are particles with a core, made up of cholesterol and triglycerides in varying proportions, and an outer wrapping of proteins used to target different locations.

In the 1940s, it was recognised that there were three different classes of lipoproteins, classified according to lipid content: high density lipoproteins (HDLs), low density lipoproteins (LDLs) and very low density lipoproteins (VLDLs).

Traditionally, cholesterol in the blood in the form of HDLs is thought to protect against heart disease, while cholesterol in the form of LDLs or VLDLs is considered a risk factor.

But that does not explain why half the people who develop heart disease have "normal" HDL and LDL cholesterol levels, while many people with unfavourable cholesterol levels do not experience problems.

Scientists now think that individuals who appear at first to have comparable levels of LDL and HDL may have different risks of heart disease due to underlying differences in the sizes of these particles.

More recent studies have shown that VLDL, LDL and HDL can be further broken down into a continuum of different-sized particles that have varying associations with heart disease.

A technique known as proton nuclear magnetic resonance (NMR) spectroscopy, developed by North Carolina-based LipoMed, produces a detailed read-out of an individual's distribution of the different cholesterol subclasses. Using the technique, VLDL can be broken down into six different-sized particles, LDL into four sizes and HDL into five sizes.

The technique makes use of the phenomenon that when a serum sample is exposed to a strong magnetic field the radio signals produced by triglyceride vary in frequency and shape according to the size of the lipoprotein particles they are packaged into.

In a recent study, James Otvos, professor of biochemistry at North Carolina State University and inventor of the technique, and colleagues explored whether NMR-derived lipoprotein subclass levels could be used to predict the severity of coronary artery disease.

Of 158 men having their arteries investigated after chest pain, they found that those with relatively high levels of either small HDL or large VLDL particles were three to four times more likely to have extensive heart disease than other men.

Next, the researchers plan to compare the effects of different cholesterol lowering drugs on the different subclasses. "Now we understand that not all LDL particles are equal and that the small ones seem worse, we want to use drugs that do a good job at lowering these," says Prof Otvos.
LipoMed, US; tel 919 212 1999, web www.lipoprofile.com

Ventricle pump may lift chances

Each year, thousands of heart-failure patients wait for donor hearts. Not only must they remain in hospital beds, attached to cumbersome machinery, but often the equipment is not enough to keep them alive, writes *Gabriele Marcotti*.

A new mechanical pumping instrument, the electrical Left Ventricular Assistance Device, could improve their chances of survival and enable them to go home.

The LVAD, about the size of a handheld camera, is surgically implanted. It is connected to an outside power source (a lightweight battery pack worn around the patient's waist) by a thin cable and, in effect, replaces the left ventricle by pumping blood through the body.

"It not only helps extend patients' lives but also allows them to rehabilitate physically so that they are better able to tolerate the heart transplant surgery when it finally occurs," says Michael Acker, of the University of Pennsylvania Medical Center, which developed the LVAD.
Diane Giaccone, University of Pennsylvania: US, tel 215 662 2098, e-mail dgiaccon@mail.med.upenn.edu

Nanotubes come in longer version

Nanotubes are strands of carbon molecules with unusual properties that have generated much excitement in scientific communities. But, until now, there has been no way to produce nanotubes that are more than a fraction of a millimetre long.

In today's Nature, the international science journal, a team of Chinese researchers announce that they have made nanotubes that are up to 2mm long.

The same method – which involved passing acetylene in nitrogen over an iron-silica catalyst – could produce even longer nanotubes.

The researchers, from the Institute of Physics of the Chinese Academy of Sciences in Beijing, say that very long nanotubes may be useful in the probe tips of scanning tunnelling microscopes, field emission materials and nanotube-reinforced materials.
Chinese Academy of Sciences: China tel 861062582078; e-mail zwpan@aphy.iphy.ac.cn

Vanessa Houlder

CINEMA

Antidotes to the silly apocalypse season

Nigel Andrews is brought down to earth from virtual reality by this week's crop of new releases

Is there room for human beings in this age of monsters and meteors? The frightening thing about a summer of *Godzillas*, *Armageddons* and *Deep Impacts* is not the brainless enormity of the films themselves – giantism and infantilism have always gone together in disaster cinema – but their ghostly influence on other films.

We cannot attribute direct cause and effect; we cannot say that *Eve's Bayou* and *Metroland*, let alone the two-year-old *Firelight*, were *actually* rendered feebler by the 1998 Silly Apocalypse season. But the plodding ineffectuality of these films about un-digitised, uncataclysm'd, everyday humans may be down in part to an epoch so hyped on the large and hokey that it can no longer encompass the small and detailed. Who cares about reality in the wacky, fun-filled immensity of virtual reality?

No wonder present-day films can seem like yesterday's, nervous and antediluvian as they fumble for modern relevance. *Metroland*, directed by TV veteran Philip Saville and opening in Britain next week, turns Julian Barnes's spry satirical novel on British suburbia into a Boulting Brothers comedy *redivivus*; or rather – this being in colour – into one of those ooh-la-la 1950s Rank Organisation romps where Dirk Bogarde, say, discovered French girls, and where the humour and Technicolor were both dolloped on as if from a sauce bottle.

Christian Bale is our hero here, bundled through a sexually troubled schoolhood ("Are you trying to queer me, sir?") and vodka-swilling late adolescence before settling down in Metroland. Here he feels the onset of *timor suburbiae*. When wife Emily Watson asks "What have you got to panic about?," he answers "Nothing, that's what worries me." The consequence is, he goes into an extended flashback (and do we mean extended) about a last-fling, post-school Paris sojourn. This sequence lasts so long that we wonder if the projectionist has mistakenly threaded an out-takes reel from Tony Hancock's *The Rebel*.

Then Bale returns to life in leafy North London. For those born since the age of Betjeman the film's title refers to the dormitory Utopia that grew up around the Metropolitan Line. "Metroland isn't a place, it's a state of mind" muses John Wood as "the retired commuter," a sort of flit-through chorus figure.

We got this point from Barnes's book, without too much nudging. In the film we are nudged black and blue. With over emphasis rife we want to protest in Sybil Fawlty tones "Oh yes,

METROLAND
Philip Saville

EVE'S BAYOU
Kasi Lemmons

FIRELIGHT
William Nicholson

GANG RELATED
Jim Kouf

MAJORETTES IN SPACE
François Ozon, Bruno Rolland, Pierre Salvadori, David Fourier

we *k-n-o-w*" as Saville and screenwriter Adrian Hodges labour the freedom and self-expression of the world's Bohemias – quintessentialised by Paris – versus the metronome orderliness of life in Britain's answer to Stepford.

Lively performances help, especially from Elsa Zylberstein as Bale's Paris girlfriend, all teasing giggles and scat line-readings. But the film's lumpy style and structure end up rendering it as fogeyish as its target. *Metroland* is not so much a spoof, more an epitomisation, of the Metroland spirit.

For serious *ennui*, however, you need *Eve's Bayou*. Inexplicably lauded in some quarters, this 1960s-set saga of black familial torment is like *Mourning Becomes Electra* without the jokes; or like a Toni Morrison novel that has ruptured itself while trying to turn into a TV soap opera. Skies rumble and winds sough in the Spanish moss as suspicions multiply in an Afro-Louisianan dynasty. Is dad Samuel L. Jackson having it off with a neighbour's wife? Did he abuse his pubertal daughter? Did her 10-year-old sister see any, or all, of this? And where was Dr Kinsey when the deep south needed him?

The film is murderously slow. Actress-turned-director Kasi Lemmons (who played Jodie Foster's friend in *The Silence Of The Lambs*) must have watched *Roots* as a child. Messages are spelled out for the deaf. Music and weather are both made ominously *à propos*. And crucial scenes are usually flashbacked twice, so that if we miss them the first time we can be nudged or woken by a considerate friend for the reprise.

No comfort, alas, from *Firelight*, the directing debut of playwright William *Shadowlands* Nicholson. He screenwrote this tale of a comely young Swiss woman (Sophie Marceau) who is hired to bear a rich Englishman's (Stephen Dillane) child and then returns years later, defying her contract, to re-stoke his flame and tend their unsuspecting daughter.

The film has been on the shelf so long that the distributors have forgotten to update the press notes. These announce that "Lia Williams (supporting actress) stars in the Royal National Theatre's production of *Skylight* which transfers to New York in the fall of 1996." Williams is now two years older and so are we all, helped on by this movie that ponderously patch-quilts bits of other films and texts – *French Lieutenant's Woman*, *The Piano*, *Jane Eyre* – and even then does not have enough material to fill 107 minutes, let alone a screen wide enough for *Lawrence Of Arabia*.

Gang Related is more watchable, just. "This is no way to repair a marriage" says policeman James Belushi's sleep-bleared wife as he rises before dawn for another hard day's graft and corruption. His oft-repeated motto is "You should never lose your sense of humour." But though full of good lines, this mazy, cynical thriller from writer-director Jim Kouf finds its wit constantly rolling out of view like an errant coin.

Spare-time drug profiteers Belushi and partner Shepac Kapur go into panic mode when a dealer they kill turns out to have been an undercover

Not so much a place as a state of mind: Christian Bale and Lee Ross in 'Metroland'

Drug Enforcement agent. Back in cop uniform they interview the "usual suspects" before deciding to frame bearded hobo Dennis Quaid for the murder. Then they find that like everyone else in the film he is not what he seems.

The who-Quaid-is revelation is the funniest moment. Kouf, who wrote *Stakeout*, is good at making the unimaginable plausible and at surprise twists that give his characters a kind of existential whiplash. He also encourages good chemistry – A-level standard at least – between Belushi and Kapur, the rapper-actor who by unseemly coincidence was shot dead in "gang-related" circumstances a few days after filming. Perhaps this cast a shadow over postproduction. Lethargic editing and the piling up of Act 3 corpses produce a "who cares" finale after a first hour tolerably full of "what nexts?"

Majorettes In Space is a programme of five gay short films. Aunt Edna will love these, especially the one where a condom is unrolled over a standing member or the later film where a gay youth has a lapsed but graphic sexual encounter with a girl. No masterpieces here, but one minor delight in François Ozon's *A Summer Dress*: a Rohmer-ish comedy about the transfiguring power of chance meetings.

Style, passion and old-fashioned theatricality: Simon Callow as Falstaff — Alastair Muir

Shakespeare twisted to serve the needs of an egomaniac

THEATRE

ANTONY THORNCROFT

Chimes at Midnight
Chichester Festival Theatre

Orson Welles had become obsessed with Shakespeare in his teens but it was 30 years later, when he had acquired a reputation as large as his girth, that he put his indelible mark on the canon.

Chimes at Midnight, a re-working of the Falstaff scenes from Shakespeare's Histories to show off Welles to his fullest advantage, was his last great triumph, at least in the movie version. The earlier stage adaptation failed to make waves and Patrick Garland's revival at Chichester is, at the very least, a curiosity.

It has one inestimable attraction – Simon Callow, Welles latest biographer and his rival in idiosyncratic genius, plays Falstaff. He brings to the performance two crucial qualities – he looks the part, like a be-whiskered pickled onion, and, even more, he loves the part. Falstaff is a dreadful rogue; a thief, a ravisher, a coward and a braggart, who gets justly deserted at the end by his princely pigeon Hal, but he is always portrayed sympathetically by actors.

This is sadly at it should be – for if the audiences did not feel as devastated as Falstaff when the new King declaims "I know thee not old man; fall to thy prayers", then one of the great scenes in drama goes by the board.

The play is a re-working of Falstaff's scenes from the Histories originally made to show off Orson Welles to his fullest advantage

But Callow is a mite too loveable, both in the way he hangs round Prince Hal's neck, and in his good natured banter in the tavern. He is less well-rounded in character than in shape: it does however mean that you freeze with him at the moments of truth, most chillingly when Timothy Bateson's prating Justice Shallow remembers "the chimes at midnight" that were so many decades ago, with most of the fellow roisterers dead.

Without Callow, *Chimes at Midnight* would only be worth seeing for the usual Chichester bombast – large casts, beautifully crafted 15th-century costumes, and some striking trompe-l'oeil, especially the opening shot of Richard II tumbling to his death, and the well choreographed battle scenes.

Welles sensibly took his script from Shakespeare, plus a little of Holinshed's *Chronicles*, but soon realised that just a succession of the scenes involving Falstaff would be disjointed, frenzied, indigestible. They only work inside the wider historical drama, the dynastic ambitions, the psychological trauma of Henry IV: Falstaff is a big bit player in a much more important story.

So he keeps some of the non-Falstaffian scenes: Prince Hal trying on the crown while his father sleeps near death, for example, but ensures that the overriding effect is a hotch-potch, a helter-skelter tour through the best bits of two plays, with nods towards *Richard II* and *Henry V*. This is Shakespeare twisted to serve the needs of an egomaniac, disturbing rather than defining.

Tam Williams and Tristan Gemmill bristle manfully as Prince Hal and Hotspur; Sarah Badel as Mistress Quickly speaks Falstaff's requiem with feeling; and Keith Baxter, who played Hal in the original production, now wrestles poignantly with a regicide's guilt as Henry IV.

Some of the verse speaking is fuzzy, and the support acting limp, but Callow, like Welles before him, gives this mish-mash of an enterprise style, passion and a not to be despised, old-fashioned theatricality.

INTERNATIONAL Arts Guide

EDINBURGH

Edinburgh International Festival
Tel: 44-131-473 2000
www.go-edinburgh.co.uk
DANCE
Zumzum/Ka: Gelabert-Azzopardi dance company. Choreography by Cesc Gelabert, in collaboration with painter Frederic Amat, set to a specially commissioned score composed and performed live by Pascal Comelade; Edinburgh Playhouse; Aug 17, 18

OPERA
Don Carlos: by Verdi. The Royal Opera in Luc Bondy's production, with sets by Gilles Aillaud and costumes by Moidele Bickel. The conductor is Bernard Haitink and the cast includes Karita Mattila and Thomas Hampson; Edinburgh Festival Theatre; Aug 17

GLIMMERGLASS

OPERA
Alice Busch Opera Theater, Cooperstown
Tel: 1-607-547 2255

● Falstaff: by Verdi. New production directed by Leon Major, with sets and costumes by John Conklin and lighting by Pat Collins. Baritone Stephen Powell sings the title role. The conductor is George Manahan; Aug 14, 17
● Partenope: by Handel. New production directed by Francisco Negrin, in his Glimmerglass debut, and conducted by Harry Bicket. Cast includes David Daniels and Lisa Saffer in the title role; Aug 16
● The Mother of Us All: by Virgil Thomson. Conducted by Stewart Robertson in a new staging by Christopher Alden, with sets by Allen Moyer; Aug 13, 15, 18
● Tosca: by Puccini. New staging by the team responsible for last year's Madama Butterfly: director Marc Lamos, set designer Michael Yeargan, costume designer Constance Hoffman, lighting designer Robert Wierzel and conductor Stewart Robertson; Aug 15

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Capriccio: by R. Strauss. Revival conducted by Andrew Davis and directed by John Cox. The Countess is sung by Felicity Lott. With the London Philharmonic Orchestra; Aug 14, 17
● Le Comte Ory: by Rossini. Revival conducted by Yves Abel and directed by Jérôme Savary, with the London Philharmonic Orchestra; Aug 15, 18
● Simon Boccanegra: by Verdi. New production conducted by Mark Elder in a staging by Peter Hall. With the London Philharmonic Orchestra. The title role is sung by Elena Prokina; Aug 13, 16

LONDON

CONCERTS
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
● BBC Symphony Orchestra: conducted by Andrew Davis in works by Ravel and Mozart, and Payne's elaboration of the sketches for Elgar's Third Symphony; Aug 13
● Choral Day: afternoon events include the New College Choir conducted by Edward Higginbottom at 5.30, and the Huddersfield Choral Society conducted by Martyn Brabbins at 6.15; Aug 15
● Carmina Burana: by Orff. Terry Edwards conducts an assembled choir of 1,000 voices as the finale of the Choral Day; Aug 15
● City of Birmingham Symphony Orchestra and Chorus: conducted by Simon Rattle in works by Birtwistle and Beethoven. With soloists including soprano Rosa Mannion, tenor Philip Langridge and bass Willard White; Aug 14
● City of London Sinfonia: conducted by Richard Hickox in works by Mozart, Diana Burrell, Tavener and Beethoven; Aug 16

Royal Festival Hall
Tel: 44-171-960 4242
Kodo Drummers: return visit by the 14-strong Japanese troupe; Aug 13, 14, 15, 16

EXHIBITIONS
Barbican Art Gallery
Tel: 44-171-638 8891
The Warhol Look/Glamour Style Fashion: includes screen prints, films, reconstructed window displays, photographs, illustrations and clothing; to Aug 16

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
● Canadian Brass: programme includes works by Bach, Mozart and Bizet; Aug 13
● Mostly Mozart Festival Orchestra: conducted by Carlos Kalmar in works by Mozart, Rossini and Schubert. With piano soloist Alexei Lubimov and clarinet soloist Richard Stoltzman; Aug 14, 15

PARIS

EXHIBITION
Centre Georges Pompidou
Tel: 33-1-4478 1275
www.cnac-gp.fr
Max Ernst: Sculptures, maisons et paysages. Around 100 sculptures and paintings by the German-born artist (1891-1976); to Aug 17

SALZBURG

OPERA
Salzburg Festival
Tel: 43-662-844501
● Don Carlo: by Verdi. New staging by Herbert Wernicke, with the Vienna Philharmonic and Opera conducted by Lorin Maazel. Cast includes Samuel Ramey; Grosses Festspielhaus; Aug 13, 16, 18
● Le Nozze de Figaro: by Mozart. Conducted by Sir Charles Mackerras in a revival of Luc Bondy's staging, directed by Joël Lauwers. With the Vienna Philharmonic and Opera. Cast includes Dwayne Croft and Barbara Frittoli; Kleines Festspielhaus; Aug 15, 17
● Saint François d'Assise: by Messiaen. Conducted by Kent Nagano in a staging by Peter Sellars. With the Hallé Orchestra and Schoenberg Choir, and a cast including José van Dam and Dawn Upshaw; Felsenreitschule; Aug 16

THEATRE
Salzburg Festival
Tel: 43-662-844501
● Soon: by Hal Hartley, with music by Hal Hartley and Jim Coleman, and sets and costumes by Steve Rosenzweig. Co-production with deSingel, Antwerp; Perner Insel; Aug 13, 14
● Troilus and Cressida: by Shakespeare. New, co-production with Theater Basel, directed by Stefan Bachmann; Lehrbauhof; Aug 13, 14, 15, 16, 18

SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-986 5900
www.santafeopera.org
● A Dream Play: American premiere of Ingvar Lidholm's opera based on Strindberg's play. The director is Colin Graham; Aug 14
● Beatrice and Benedict: by Berlioz. New production directed by Tim Albery and designed by Jennifer Tipton. Susan Graham will sing the role of Beatrice, with Elizabeth Futral as Hero. The conductor is Edo de Waart; Aug 13
● The Magic Flute: by Mozart. New production by Jonathan Miller, with sets by Roni Toren and costumes by Judy Levin. Cast includes Sheri Greenawald; Aug 15, 18

SCHLESWIG-HOLSTEIN

CONCERTS
Schleswig-Holstein Music Festival
Tel: 49-431-567 080
● Anne-Sophie Mutter: recital of Beethoven violin sonatas; Kiel, Schloss (Aug 14), Flensburg, Deutsches Haus (Aug 15) and Lübeck, Musik- und Kongresshalle (Aug 16)
● Philharmonie der Nationen: conducted by Justus Frantz in works by Brahms; Lüneburg, Marktplatz, Open Air; Aug 14

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
Andreas Rothkopf: recital by the organist of works by Bach; Aug 14

VERONA

DANCE
Teatro Romano
Tel: 39-045-800 5151
www.arena.it
Romeo and Juliet: by Prokofiev. Robert North's choreography, created in 1990, is presented here for the first time in a production designed by Andrew Storer. Romeo and Juliet are danced by Benito Marcelino and Mia Johansson; Aug 16, 18

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

Pessimism in Palestine

Fears are growing that a democracy may not be possible under Yassir Arafat, says **Judy Dempsey**

When Yassir Arafat, president of the Palestinian Authority, drew a small notebook from his pocket last week, a hush descended on the packed Palestinian Legislative Council.

For more than a year, the PLC, Palestine's de facto parliament, had been demanding a shake-up in the cabinet. A committee set up to audit the PA's accounts had found mismanagement of funds and corruption among several ministers.

But the PLC's demands disguised a more general unease with Mr Arafat's style of leadership and his ability to create a democratic state. Four years since his return from exile, the revolutionary leader, who was 69 this month, shows little willingness to loosen his grip on power.

So when, with a trembling voice and shaking hand, Mr Arafat read out a list of names from his notebook, pandemonium broke out among PLC deputies. The cabinet was increased by 10 to 28. No corrupt ministers were sacked. Several critics of Mr Arafat were co-opted into the cabinet.

"What happened is neither change nor amendment," said Kamal Sharafi, chairman of the PLC's human rights committee. "This does not meet the aspirations of the Palestinian people. This is no way to prepare for the declaration of the state."

On May 4, Mr Arafat intends to announce the establishment of a Palestinian state, regardless of whether Israel and the Palestinians have resumed peace negotiations, or even regardless of whether the entire peace process has collapsed.

A unilateral declaration of statehood will allow Mr Arafat to establish an army and have a foreign ministry, neither of which is permitted under the Oslo accords. But there are other aspects of statehood for which many Palestinians think they are ill prepared. They say that after Mr Arafat returned to Gaza from exile in Tunisia in 1994, he failed to create strong and independent civil institutions that could complement the power of the state and check its excesses.

One senior PA official said: "Israel does not make it easy for Arafat. But Palestinians are not sure where he is leading them, and what sort of state they want to live in."

A survey this week by the independent Jerusalem Media Communications Centre showed a majority of Palestinians pessimistic about the future performance of the PA, while more than 77 per cent had no doubt that the PA was corrupt.

The small liberal middle class, many of whom remained in the West Bank and Gaza during the Palestinian Intifada uprising against Israeli occupation, is now anxious that too much power has been concentrated on Mr Arafat and his circle.


Arafat: revolutionary tradition

"The new Palestinian order after the establishment of the PA is incapable of effecting a smooth and incremental process of transition from the logic of the 'revolution' and exile to the logic of 'state' and civil society," wrote Ziad Abu-Amr, a PLC deputy, in the Journal of Palestine Studies.

The press, for example, remains censored, or else journalists practise self-censorship. Television remains firmly under the control of Mr Arafat, who decides when it can broadcast live from the PLC meetings. None of the loud criticism of Mr Arafat and the cabinet was shown to Palestinians.

Local government is in bad shape as well, almost devoid of power. A PLC law recommending more decentralisation and accountability on the local level has still to be implemented – precisely because it would devolve more power from the centre.

Even local government elections, scheduled to take place a year ago, have been cancelled at the behest of the security forces. The elections, say Palestinian officials, would have shown growing popular discontent with Fatah, Mr Arafat's political movement and the ruling party in the West Bank and Gaza. But it would have shown local democracy at work as well.

The president's supporters say he has devoted his entire life to confronting Israel, caring little about the task of building the infrastructure needed for a state

The emergence of a civil society has been further hampered by the changing status of non-governmental organisations, which until the establishment of the PA in 1994, played an important role in providing health, educational and legal aid and other services. The PA recently insisted that funding for, and organisation of, the NGOs' work must be centralised. Most of that funding is now channelled through the World Bank. But in most cases the PA sets conditions under which the NGOs must do their work, and this has caused considerable resentment among donors.

The judicial system is in no better shape, mainly because of a reluctance to unify the Gaza and West Bank legal codes. Gaza inherited a combination of British Mandate and Ottoman laws, while the West Bank was subject to Jordanian law. Legal experts admit the task is huge, but also believe that it must be done if an independent and transparent legal system is to be established.

Even Mr Arafat's supporters admit that he has failed to develop his revolutionary cast of mind and cannot get much beyond his dream of an independent Palestine. They also say he has devoted his entire life to confronting Israel, caring little about the task of building the infrastructure needed for a state.

"Many Palestinians stood behind Mr Arafat in that struggle. Many still do. But it is different now. Arafat is back home. We see what he is really like," said a former Palestinian peace negotiator.

Mr Netanyahu's intransigence towards the peace process gives Mr Arafat little reason to concentrate on anything else.

"Much of our energy is [spent] trying to oppose Israel's expansion of Jewish settlements and Jerusalem and house demolitions," said Saeb Erekat, one of the peace negotiators and local government minister.

But despite Mr Arafat's revolutionary energy, there is growing concern that Palestinians may not be able to create a democratic state under his leadership. Although in very poor health, he has not designated a successor. Infighting among the inner core of advisers suggest anything but a smooth transition.

"We were hoping," wrote Ghassan Khatib, another former peace negotiator, "that [the reshuffle] might be used by Arafat to serve a higher political aim: introducing strong, credible elements into the cabinet in order to send a message to the Israelis and the Americans that the stalemate in the peace process could bring about stronger Palestinian political positions. Such expectations have been disappointed."

Lionel Barber is on holiday

LETTERS TO THE EDITOR

Soros sees G7-backed, $50bn currency board for Russia as only way out of crisis

From Mr George Soros.

Sir, The meltdown in Russian financial markets has reached the terminal phase. Bankers and brokers who had borrowed against securities could not meet margin calls and forced selling swamped both the stock and the bond markets. The stock market had to be temporarily closed because trades could not be settled; prices of government bonds and Treasury bills fell precipitously. Although the selling was temporarily absorbed, there is a danger that the population will start again to withdraw funds from savings accounts. Immediate action is required.

The trouble is that the action that is necessary to deal with a banking crisis is diametrically opposed to the action that has been agreed with the International Monetary Fund to deal with the budget crisis. The IMF programme imposes tight monetary and fiscal policy; the banking crisis requires the injection of liquidity. The two requirements cannot be reconciled without further international assistance. The IMF programme had assumed that there would be buyers for government bonds at a price: as the government proceeded to collect taxes and slash expenditures interest rates would come down and the crisis would abate. The assumption was false because much of the outstanding debt was held on margin and credit lines could not be renewed. There is a financing gap that needs to be closed. The gap will become bigger if the general public starts withdrawing deposits.

The best solution would be to introduce a currency board after a modest devaluation of 15 to 25 per cent. The devaluation is necessary to correct for the decline in oil prices and to reduce the amount of reserves needed for the currency board. It would also penalise the holders of rouble-denominated government debt, rebutting charges of a bail-out.

About $50bn of reserves would be required: $23bn to cover MI and $27bn to cover the shortfall on domestic debt refunding for the next year. Russia has reserves of $18bn; the IMF has promised $17bn. The Group of Seven needs to put up another $15bn to make a currency board feasible.

There would be no bail-out of the banking system. With the exception of a few institutions that hold public deposits, banks can be allowed to fend for themselves. Government bond prices would immediately recover and the sounder financial institutions would survive. Some $40bn is held by Russians in foreign currencies. With a currency board they may be tempted to buy rouble-denominated government bonds at attractive yields. If they do, the G7 standby credit would not need to be used. The reduction in interest rates would help the government to meet its fiscal targets.

If the G7 were willing to put up $15bn right away, the situation could be stabilised even without a currency board, although it might take longer and the damage would be greater. It would also be difficult to accomplish a limited currency adjustment without a currency board because the pressure for further devaluation would become irresistible, as it did in Mexico in December 1994.

If action is delayed, the cost of a rescue will continue to mount. The cost would have been only $7bn a week ago. Unfortunately, international financial authorities do not appreciate the urgency of the situation. The alternatives are default or hyper-inflation. Either would have devastating financial and political consequences.

George Soros,
888 7th Ave,
New York, US

Leading by the nose?

From Mr Osman Streater.

Sir, It is said that over-credulous BBC listeners send orders for farm produce to *The Archers*. I have spent some time looking for any hint of a tongue in a cheek, either yours or the author's, in the letter you published from Mr G. Davies (August 8-9) quoting extensively C. Northcote Parkinson's "biography" of Horatio Hornblower to the effect that Wellington, to whom C. S. Forester's fictional hero "was related by marriage", was a greater leader than Nelson.

A little time ago, I wrote a guide to waterside pubs for the London Docklands Development Corporation. In it I mentioned that a certain pub's claim, advertised on the premises, to have been the trysting place of Nelson and Lady Hamilton, was rather doubtful. My reason was that the pub in question had been built after the Battle of Trafalgar.

I was duly informed that had been banned for life from the premises and that the claim most definitely stood. Goodness knows what will be the fate of Mr Davies and, with respect, yourself, sir.

While you wait, may I commend to you both C. Northcote Parkinson's equally excellent biography of James Bond.

Osman Streater,
Savile Club,
69 Brook Street,
London W1Y 2ER, UK

Japanese savers seek safety

From Mr Patrick O'Brien.

Sir, It is clear that the usual economic solutions applied to the Japanese economy do not work because the Japanese want security for their savings rather than more consumer goods.

For the last several years those Japanese who have invested their savings in the NYSE have achieved overall returns in excess of 30 per cent a year. The outflow of money has created a speculative bubble in the rest of the world but lowered the yen on the foreign exchanges and destabilised their banks.

The Japanese savers require to be offered a safe haven for their savings; the Japanese banks that are viable need recapitalising as well as an inflow of funds at present held in cash. The answer is to point out to the Japanese the risk of the bubble bursting, offer them government guaranteed bank bonds carrying a proper coupon rate with a 25-year life, and denominate in both yen and dollars on repayment.

The result will be that the outflow of money will reverse, the dollar will fall, the yen will rise, Japanese savers will feel safe and start spending again. The Japanese banks will start lending again even to the south-east Asian economies now in recession.

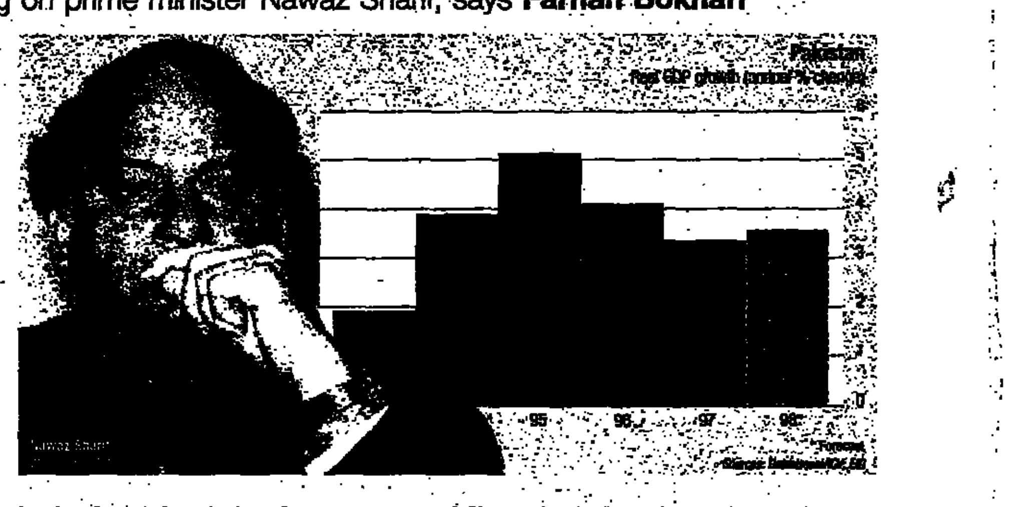
Patrick O'Brien,
2 Evening Glades,
Ferndown, Dorset, UK

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers worldwide. Letters may be faxed to +44 171-873 5938 (set fax to 'fine'). e.mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages. Fax 0171 873 5938. Letters should be typed and not hand written.

Fall-out in Pakistan

The world's newest nuclear power is facing economic collapse and the pressure is mounting on prime minister Nawaz Sharif, says **Farhan Bokhari**



For Nawaz Sharif, Pakistan's prime minister, May's nuclear tests marked a watershed. "We have entered a new phase and, *inshallah*, the next 50 years will be different from the first 50. It's got to be a period for Pakistan to stand on its own feet."

But as the consequences of western sanctions mount, the words have a hollow ring. No stranger to turmoil, Pakistan is in the grip of one of its worst financial crises. It is struggling to stave off default on its $42bn foreign debt and, as public disillusion mounts, there is again talk of a caretaker government of technocrats to sort out the mess.

That would be a staggering humiliation for Mr Sharif, whose Pakistan Moslem League won a landslide victory in last year's election. But it might come as a relief to outside countries, which are calculating the dangers of the world's newest nuclear power descending into economic and social chaos.

Apart from the nuclear tests, which conferred a short-lived political advantage, Mr Sharif has little to celebrate after more than a year in office. Even before western sanctions hit, his efforts at economic reform were producing little. Tax collection has been disappointing in spite of the appointment for the first time of a businessman to head the tax collection agency. And the government has had big rows over tariffs with private sector power producers.

Since the nuclear test, Mr Sharif's decision to freeze onshore foreign currency accounts to prevent a run on the banks and the central bank's tightening of foreign exchange controls have made things worse. Business confidence has been hit "right in the belly", in the words of one foreign banker.

Mr Sharif has yet again ordered the clean-up of the country's public sector banks. The sector is reeling under the pressure of about Rps157bn ($3.4bn) in bad debt. Much of this was lent – either directly or indirectly – by successive governments in the form of agricultural and industrial loans as patronage in return for political support. Critics say the sensitivity of some of these loans will prevent an adequate clean-up; even the arrests of a handful of loan defaulters has left many unconvinced.

"The corrupt legal system will let them off," says the president of one local bank. "There are too many contradictions here, a weak government and a crisis too large for it to handle."

Mr Sharif has sought to underline the seriousness of his reform by appointing Hafeez Pasha, a former university professor and deputy chairman of the planning commission, as his economics adviser and *de facto* finance minister. But the change has not impressed many analysts.

"This change [of adviser] is not going to win any new points for the prime minister," says Sikandar Khawaja of HSBC. "What will win him points is improved performance of his government, not these antics."

The real issue, argue many observers, is whether Mr Sharif will forcefully back reforms, even at the risk of alienating powerful interests in business, industry and the agriculture sector.

Salman Shah, a member of last year's interim government, sees little chance of that happening. "When governments mismanage, they lose control. This is when they have no credibility, no capability to instil confidence and no ability to change," he says "This system cannot deliver. It is based on crony capitalism and patronage."

The prime minister's apparent inability to go beyond window-dressing has created growing support among middle-class professionals for a government of technocrats. It is argued that such an administration could be installed with the backing of the powerful army, which has ruled the country for almost half of its history.

But in spite of mounting discontent, there is no agreement about how Mr Sharif could be removed. He has used his large parliamentary majority to curtail the power of the president to sack serving prime ministers. And while there are private voices of dissent within the ruling party, there is no sign of open confrontation.

Business confidence has been hit 'right in the belly', says a foreign banker

Most observers believe Pakistan's deep problems cannot be solved at a stroke, even by a government with the right technocratic skills. Reforming the economy, restructuring the debt and tackling some of the social causes behind growing crime and sectarian violence will all take time.

"There are no half measures which would work here," says Zakir Mehmood of Credit Agricole Indosuez, the French bank. "Pakistan needs a major restructuring."

Many analysts say that some of the needed measures, even if backed by a multi-billion-dollar international support package, would be hard for any government to swallow. Required reforms include an overhaul of the tax system (with the introduction of direct taxes on almost all goods, barring a few essential commodities), as well as big lay-offs in the grossly inefficient public sector.

In the absence of such radical policies, the situation is liable to worsen. Washington, which has relaxed sanctions somewhat, is clearly worried about economic collapse.

Pakistan's economic and political well-being is seen as central to the goal of a more stable south Asia, whose security has been jeopardised by the drawn-out conflict over Kashmir between India and Pakistan. Many analysts argue that a collapsing Pakistan would be in no shape to begin settling the dispute, a necessary prelude to accepting international nuclear safeguards.

For all these reasons, says Mr Shah, the west would be willing to accept the ousting of Mr Sharif if that were the price of avoiding economic collapse. "The international community would like to hold this country together, especially as it is now a nuclear power," he says. "It would be dangerous to let it become a basket case."

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Thursday August 13 1998

A touch of the old Kohl

Don't write him off yet! Helmut Kohl, the indefatigable German chancellor, came back from his summer holidays this week, and plunged straight into the election campaign which most political observers still expect him to lose. But with just over six weeks to go before election day, the opinion polls suggest that the lead of the opposition Social Democrats is shrinking, and Mr Kohl seems to have recovered a bit of his old lust for the hustings.

Yesterday he presented the core of his Christian Democrat party's programme: a reviving economy, just in time (although maybe not to get unemployment back below 4m), and a package of tax reforms which were blocked by the SPD in the parliamentary process last year. Add those to a tough stance on law and order and immigration, moderated by the chancellor's tried and tested commitment to European integration, with a strong stress on decentralisation, and you have a presentable election platform.

The tax reform plans are a key element. Germany's complex and cumbersome tax system urgently needs overhaul, with too many special concessions designed to offset excessively high marginal rates. Mr Kohl is promising a cut in the top rate of income tax and in the bottom rate, neatly designed to appeal to everyone. Voters know the old system is creaking and discredited. But Oskar Lafontaine, the SPD chairman, has promised to block Mr Kohl's reforms once again if he dares to win the election. That tactic could backfire.

The CDU package, it must be said, sounds rather more coherent as an election platform than it ever appeared in the muddled reality of coalition government. The Kohl regime has looked increasingly fractious and dispirited in recent months, and it has delivered little in the way of new initiatives in its four years in office. Its ideas are scarcely new, except for a rather worrying shift to the right on immigration. The opinion polls say that German voters want a change.

The trouble is, they don't know what they are going to be getting with the SPD. Mr Lafontaine still runs the party, but he is mistrusted as too left-wing and maverick by the floating voter. That is why Gerhard Schröder, the more pragmatic premier of Lower Saxony, is the SPD candidate for chancellor. But he is bending over backwards to make sure he does not offend anyone, and he represents an unreformed party. The risk he runs is of being too bland to be believable.

It is certainly still too close to call the outcome, although some now suspect it may have to be a grand coalition of SPD and CDU, because neither will be able to forge a majority with smaller partners. Mr Kohl would certainly not serve in such an alliance, but Wolfgang Schäuble, his anointed crown prince, could easily replace him.

For all his bluff facade, the German chancellor is a formidable election campaigner and a ruthless political operator. He will exploit any perceived weakness to the hilt, and the Schröder-Lafontaine double act is an unstable combination. They are going to have to come up with some clear answers and firm policies, including a coherent and effective tax reform package of their own, if they are to keep a good lead on election night.

Secession

In 1945 there were 62 independent countries in the world. There are now, it is estimated, 193. This week Nevis just missed out on becoming number 194, and one of the smallest. When it comes to countries, does size matter?

The 9,000 strong island's campaign to opt out of political union with St Kitts, its marginally larger neighbour, was based squarely on economic grounds. The two former British colonies were joined at independence in 1983. Since then, Nevis leaders have complained bitterly that they get a raw deal in the federation's allocation of public funds. Moreover, the US has branded St Kitts a drugs blackspot. Nevis is concerned that this will thwart its ambition to follow the example of the Cayman Islands and Bermuda, and become a low-tax, lightly regulated offshore haven for finance and insurance.

Large countries spread the cost of public goods over more taxpayers. They also stand to benefit from economies of scale and regional insurance through diversification. Against this, small countries have fewer competing claims on policy. Liberalisation of trade has favoured small countries the most. And telecommunications and computers increasingly render size and distance less important.

There are already 35 countries with populations less than 500,000. Notwithstanding the threat of global warming to some, this trend towards more and smaller countries looks set to continue. The Nevis secessionists say their fight has only just begun, and elsewhere in the Caribbean political separatism is gaining support. No man is an island. But increasingly, a small island can prosper as a state.

Inflation grind

In introducing the latest inflation report, Mervyn King, deputy governor of the bank of England, noted that the UK is moving into the difficult stage of the economic cycle. If proof were needed, he and his colleagues would only need to listen to the complaints about high interest rates and rising unemployment coming from all the expected quarters. How should the members of the Bank's monetary policy committee treat these pleadings? With indifference.

The Bank should do so, for three reasons: first, because sustained monetary stability is the only way to avoid a repetition of the damaging recessions of the early 1980s and 1990s; second, because it has a legal mandate to hit the inflation target; and, third, because short-term interest rates may need to remain at current levels for some time if that target is to be hit.

After the deep recession of the 1990s, the UK enjoyed a halcyon period when growth was above trend, but unemployment and inflation fell. Now growth is falling below trend, while inflation is still above target. It was to deal with the pressures inevitably arising at this stage of the cycle that the Bank was given operational independence. Its mandate is not to win a popularity contest; it is to decide whether policy is tight enough to deliver the target.

It probably now is, as the Bank assumes. Though the most likely path for inflation over the coming two years is higher than that presented last May, inflation comes back to the target by the end of the period. To achieve this outcome, the year-on-year rate of economic growth is forecast to fall to just above 1 per cent in the first half of next year, before returning to the trend rate the following year. But the Bank sees a one-in-eight chance of a year of negative growth.

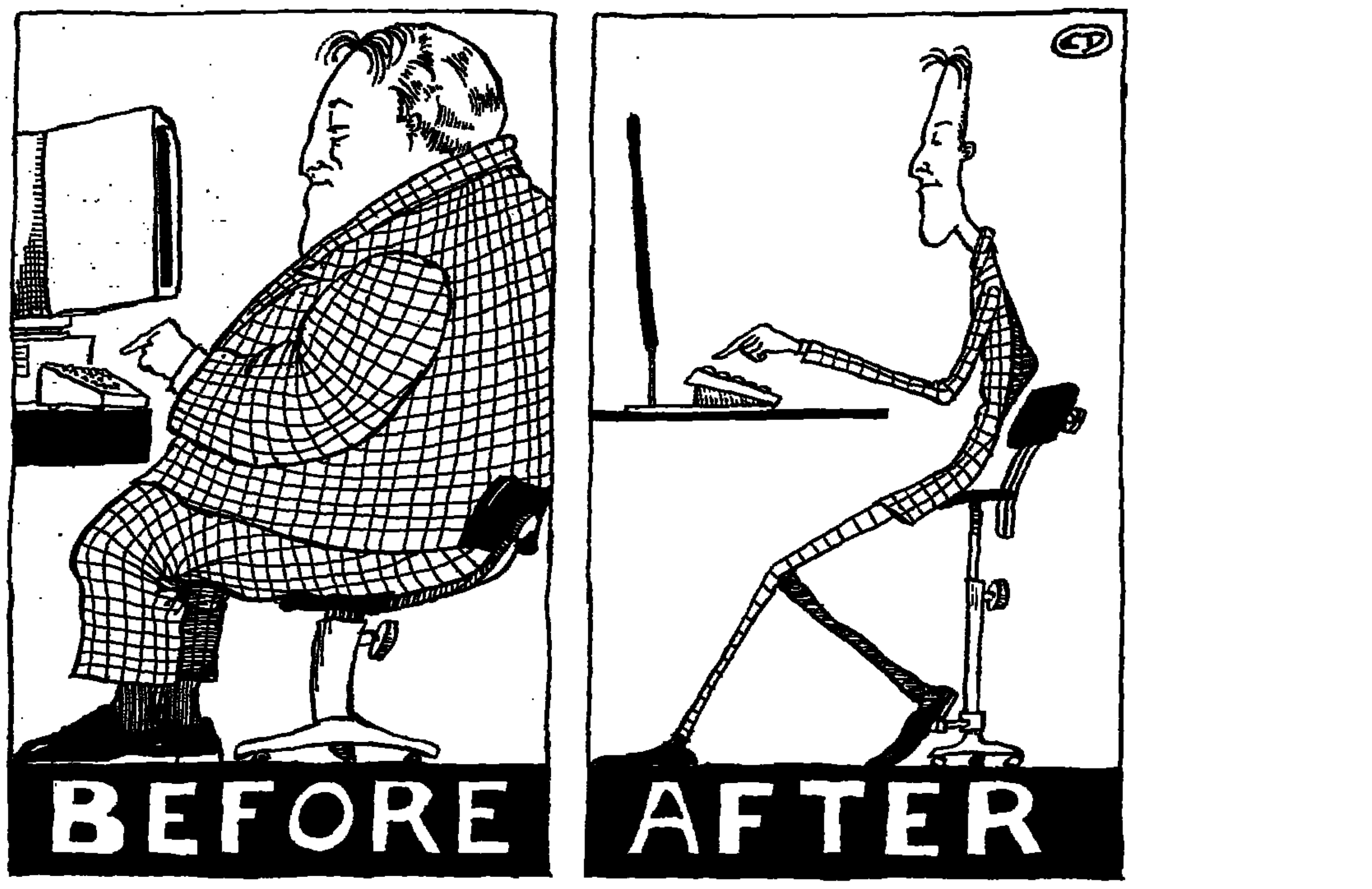
While the Bank denies it has a view on what unemployment rate will be needed to deliver the target, it has little doubt that unemployment has been below the level consistent with stable inflation. It is right in this judgement. Unemployment must rise, though how much depends on the speed of the labour market response.

It is encouraging to see the headline rate of earnings inflation in the private sector fall from 8.2 per cent to 5.7 per cent over the latest two months. It is still more cheering that this has happened despite a decline in the standard international measure of unemployment, from 6.5 per cent of the labour force between January and March to 6.2 per cent between April and June. Nevertheless, inflation in private sector earnings remains more than a percentage point above the level consistent with hitting the inflation target in the longer term.

It is at this stage that the Bank most needs support. The UK now has the opportunity to enjoy a full economic cycle with low inflation and consistently positive year-on-year economic growth. That is all macroeconomic policy can ever hope to deliver. But it has failed to do so for a generation. This achievement is now within the country's grasp. The chance must not be thrown away.

The rise of the lean machine

More companies are taking computing power and software away from the desktop PC – known as 'thinning the client' – and distributing it around the corporate network. Roger Taylor reports



It is little more than two years since Larry Ellison, head of Oracle, the software company, and Scott McNealy, head of Sun Microsystems, the computer group, announced that the personal computer was yesterday's technology. They launched what they hoped would replace it: the Network Computer.

They made headlines by predicting a world in which people would ditch their PCs in favour of cheap, simple devices consisting of little more than a screen and a keyboard. These would be connected through the internet or through private corporate networks to powerful computers which would perform whatever instructions were sent to them.

Since then, Network Computers have bombed – selling fewer than 350,000 last year – while sales of PCs have continued to grow. So are Mr Ellison and Mr McNealy now humbly chewing their words?

Not a bit of it. Much of what they forecast is now coming true – although, as so often happens with grand prophecies, they are turning out to be as inaccurate in detail as they were perceptive in general.

Network Computers may have failed as a product, but network computing – the model of computing that they first outlined – is making strong progress in several different guises. In broad terms, it is now widely recognised as the future for corporate IT systems.

Network computing refers to any IT system that takes computing power and software away from the desktop PC and distributes it to other machines around the corporate network. This process, also known as making the "client" – the desktop or laptop machine – "thinner", is being achieved without the need to buy Network Computers. Instead, PCs – some of them quite powerful – are simply adapting to their new role.

At present, most companies run a large number of personal computers capable of carrying out a range of functions, from writing memos to preparing business accounts. These are linked to databases or central computers, called servers, which hold the company's files and data.

The trouble with this set-up, as almost any office worker can testify, is the high maintenance required to keep a PC equipped with the latest software and to prevent it from breaking down in the hands of ham-fisted employees. Analysts say the cost to a company of maintaining just one PC is about $6,000 a year.

This could be greatly reduced. When every computer is wired into the internet and thus linked to powerful servers, there is no need for each box to have the power on board to perform every function. Instead it can call on other, better-tended and more robust machines to do the work.

International Business Machines, the world's largest computer company, says no forward-looking company would dare suggest any other approach to computing these days. Oracle is equally emphatic that this is the only way to go.

A report from Zona Research, the industry analyst, argues that, in the short term, companies will adopt a range of strategies for gradually taking computing power off the desktop and that eventually desktop machines will operate principally as thin client devices. Financial logic is forcing the pace of change. The more a company keeps its software on a central computer, the easier and cheaper it is to maintain and upgrade the system.

To take one example, Citrix, a Florida-based company run by former IBM executives, recently introduced a new system for Bell Mobility of Canada. The employees who deal with customer inquiries had been working with PCs. They have now been issued with simple thin client devices linked to central servers that do all the work. In the past, says Citrix, delivering new software to every desktop was a lengthy process. In the new set-up it takes just 45 seconds. Such savings could be reason enough to push a company towards network computing. But other developments also play a part.

The acceptance of the internet as a central part of any business's operation is one. Initially, the business potential of the internet was seen as mainly in terms of advertising and then as a means of transacting business. But the internet and the public networks will soon be able to provide much of the infrastructure for a company's own computer network.

Telephone companies are rapidly adopting the technology of the internet and corporate data networking by building into the fabric of the public telephone system the switches and routers that manage the flow of data between computers. The result is the "virtual private network", whereby telephone operators can offer corporate clients secure and reliable computer networks run over public wires.

Mark Jarvis, senior vice-president of marketing at Oracle, says virtual private networks will have "an enormous influence", as companies will no longer face the cost and hassle of setting up their own networks. They will be able to subcontract what they need from the phone companies. It will also increase the flexibility of networks, making it relatively easy to give new people access to a system – or remove them – wherever they may be located.

Distributed computing is another buzzword in this emerging market. Instead of writing a new, self-contained piece of software for a particular task, distributed computing combines functions from different parts of a corporate IT system and makes them work together to produce the same result.

This means that not all the software necessary to run a particular programme will exist on any one machine. The PC on the desktop will work only if plugged into the system.

Having initially rubbished the idea of the Network Computer, Microsoft is now making much of the running in the market for network computing

Such pressures have led Zona Research to conclude that "long-term forces will ultimately lead to the widespread deployment of thin client architecture" and that software companies will increasingly write programs for the server rather than for the desktop machine.

All this should be music to the ears of Messrs Ellison and McNealy. But any pleasure they might take will be spoilt by one big difference between their ideal of network computing and the reality. They hoped that the Network Computer might break the power of Microsoft. In this respect, it has failed dismally.

Having initially rubbished the idea of the Network Computer, Microsoft is now making much of the running in the market for network computing. The company reversed its initial scepticism last year when it began a series of initiatives in the thin client market. It has licensed technology from Citrix that allows almost any device with a keyboard and a screen and linked to a server to run programmes using Microsoft's Windows operating system. Microsoft has also developed the Windows Terminal – its own version of the Network Computer – which works with the Windows Terminal server.

Oracle maintains that Microsoft is still too committed to "fat clients" to be credible in network computing. But the figures suggest otherwise. Of the total number of thin client devices shipped last year, most were designed to operate Windows-based systems.

Mr Eric Brown of Forrester, the industry research group, has little doubt about Microsoft's ability to adapt to the new market. When Microsoft realised it needed to get into the internet browser market, it "turned on a dime", he says. "It will take it just as long to turn from a company with its primary revenues from the desktop to a company with primary revenues from the server market."

The move to a network computing environment will create a more fluid environment – for example, operating systems for desktop PCs will become less important because all devices will be able to access most networks. However, Mr Brown predicts that the move to network computing will have little effect on the relative positions of leading companies.

Newer companies – with a few exceptions, such as Citrix – will find it hard to take the opportunity to break into the market, as most corporate customers will entrust such large-scale projects only to big-name companies.

The list of winners is therefore likely to include familiar names: Microsoft, Sun, Oracle and IBM. Furthermore, the market will divide much as it does now, says Mr Brown. He predicts Microsoft will get 70 per cent of the market by volume – holding on to those customers who work at present mainly on Windows-based systems – but will take a much smaller percentage of market by value. Oracle, Sun and IBM, he says, will continue to supply larger enterprises with more demanding requirements.

Java, the computing language developed by Sun Microsystems as the lingua franca of network computing, will become the basis of computing outside the Microsoft-dominated world, he argues. But it will, at least in the short term, fail to deter the large number of companies that will want to continue working with Microsoft systems.

In the longer term, the use of Java could bring much bigger changes as it will allow applications to run on almost any kind of computer system. The choice of operating system for the the entire network system could then become unimportant.

But for now the move to network computing seems unlikely to unseat any leaders or create new champions. Mr Ellison and Mr McNealy will have to satisfy themselves with being right in principle, rather than the commercial victory they craved.

OBSERVER

Cypriots check bishop's move

Greek-Cypriot bishops are often mixed up in business. The late Archbishop Makarios's dealings resulted in the Orthodox Church acquiring stakes in the island's profitable banks and mining businesses.

But one cleric has managed to land himself in a spot of bother – Bishop Chrysanthos of Limassol, who was already the subject of some curiosity on the part of his parishioners about why he had a bank account containing more than 1m Iraqi dinars.

There have also been questions about what happened to the $700,000 – said to be a gift from a Russian businessman – that was presented to the diocese to finance the construction of a Russian Orthodox church in Limassol for the town's expatriate Slav residents. There was some embarrassment when Patriarch Alexei, head of the Russian Orthodox Church, publicly queried why the church was not being built.

Now Bishop Chrysanthos has been questioned by Cypriot police investigating a complaint from a British businessman. He said that he was guaranteed a 300 per cent return on a property deal by a group of people posing as the Bishop's advisers.

Archbishop Chrysostomos, head of the Orthodox Church of Cyprus, has called the bishop "naive" and "stubborn", reminding the Limassol faithful of Chrysanthos's disastrous purchase of a derelict asbestos mine a few years back. But, for the moment at least, he and the other bishops seem prepared to be charitable.

Green machines

It was good to see four of Germany's 16 *Länder* – federal states – acting to help the environment yesterday, with the country's first driving bans. Lorries were banned completely – unless they were low-pollution ones. Or dustcarts. Or carrying live animals or perishable goods.

The strict Green measures for cars didn't interfere with people's lifestyles too much. Commuters who would otherwise find it hard to get to work were exempt. As were doctors. And those with low-pollution cars could drive to their hearts' content. The same went for cars with approved catalytic converters.

Apart from that, people weren't allowed to drive their cars at all. Unless they were going on holiday. Or coming back.

Shuttle diplomacy

As if diplomacy in the Balkans wasn't dangerous enough, Russia's deputy foreign minister Nikola Afanasyevsky – who's trying to mediate in Serbia's nasty war in Kosovo province – took a few days off to go hang-gliding. He fell off a hill and broke his leg.

With *glasnost* of the Kremlin's normal standard, the Russian embassy in Serbia said the envoy had cancelled his foray into Montenegro because of illness. Under pressure, it now admits that he hurt his leg, but won't say how.

Maybe politicians should simply refrain from throwing their weight around in the Balkans.

Hostile climate

Goldman Sachs' role advising AlliedSignal in its $9.8bn hostile bid for AMP caused some raised eyebrows on Wall Street, though Goldman's reputation for steering clear of hostile takeovers is much exaggerated. It has advised predators in memorable attacks such as BP's on Britoil in 1987 and Ford on Jaguar in 1989.

Goldman says it has no set policy, but takes part "cautiously, rarely and selectively". In reality, it has been ready to help long-time clients with hostile bids, but reluctant to act as a hired gun.

Observer suspects that, once Goldman changes from a partnership to a public corporation, market forces might force it to be a little less choosy.

Full Monty

Bill Gates' loyal band of anoraks have long dismissed the US government's antitrust lawsuit against Microsoft as a joke. So they may have been surprised to see Microsoft's defence citing a bunch of British jokers.

Buried deep in legal papers is a claim by Microsoft that it is acting like Monty Python – "the British comedy group", it helpfully explains – in trying to protect its interests. Microsoft said Python had won an injunction against ABC television over plans to broadcast edited highlights of "the group's occasionally off-colour comedy skits".

That wouldn't include the one about the ordinary man who was mistaken for the Messiah, would it?

House call

Hong Kong's "touchbase" policy – in colonial times it granted citizenship to all immigrants – is just a footnote in history, but hundreds of mainlanders still head for the territory's bright lights. Wong Siu-hung, 29, was one such. He crossed the border clutching the underbelly of a container truck then tried to break into the first house he came across to find food.

Bad choice. It was the official weekend retreat of the territory's leader, Tung Chee-hwa, so Wong was swiftly picked up and charged with attempted burglary. He has just started a 33-month stretch in a very different style of government accommodation.

The Financial Times

100 years ago

The Queen [Victoria] Speaks
Both Houses of Parliament met yesterday for the final ceremony of the prorogation. The Queen's Speech included the following passage:- "My Lords and Gentlemen, I thank you for the liberal provision which you have made for the defence of my Empire. The sacrifices which have been asked of you are severe, but they are not greater than the exigencies of the present time require. Changes which have taken place in the territorial relations of other Powers with the Chinese Empire have induced me to conclude agreements by which the harbour of Wei-Hai-Wei and certain positions adjacent to my colony of Hong Kong have been leased to me by the Emperor of China."

50 years ago

India's Independence
Calcutta, August 12. The economic effects of partition of India have been much more serious than was anticipated. The inflationary forces which were in process of being checked just prior to the formation of the new Dominion have gained in strength. The Government's industrial policy has not merely disappointed Indian industrialists, but has left them bewildered.

FINANCIAL TIMES
THURSDAY AUGUST 13 1998

THE LEX COLUMN

Misguided medicine

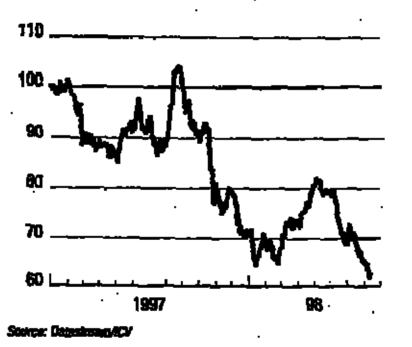
There is a danger of George Soros's doom-mongering proving self-fulfilling. Comments that Russia's perilous financial condition has reached the "terminal phase" will hardly allay fears of a default or a money-printing splurge. Without a positive swing in investor sentiment – one ideally triggered by good news on the budget deficit – the International Monetary Fund-led package to Russia has little chance of success. As yields on rouble and dollar debt have soared to take account of default, the hoped-for virtuous circle of lower yields cutting funding costs and so producing still lower yields has evaporated.

However, since the central bank still boasts reserves of some $18bn to deal with its foreign exchange needs, there is no immediate threat of a devaluation. And though the arithmetic of the budget deficit might suggest a fourth quarter shortfall, not all potential avenues for securing additional external funding have yet been exhausted. Sales of stakes in Gazprom and other state companies could raise cash rapidly if strategic investors come forward. And a return to capital markets is possible at a price.

Mr Soros's call for a currency board looks impractical as it requires the political will to entrust the conduct of monetary policy to another country's monetary authorities. To expect political support from a nationalistic Duma is optimistic, especially in the aftermath of a devaluation that would decimate such rouble savings as remain.

ABB

ABB
B share price relative to the Swiss Market Index



Source: Datastream/ICV

ABB reorganises and restructures as though it were going out of fashion. The latest reorganisation comes on top of three substantial cost-reduction programmes since the merger 11 years ago. The good news for shareholders is that the programmes have yielded results, as the improvement in operating margins from less than 3 per cent to their current 7.2 per cent proves.

Obviously stripping out a 100-strong layer of regional managers is hardly on a par with the $1.3bn spent on previous overhauls. Its importance is not the impact on costs but on culture. Country managers will henceforth report directly to main management, speeding up decisions. The same goes for ABB's plan to split the two main divisions into their component businesses, thereby improving transparency of earnings. This may not always shed the best light on trading. ABB's oil, gas and petrochemical division will come under scrutiny, given recent signs from rivals of a softening in turnover growth. But longer term, ABB will benefit by exposing its divisions to the investor spotlight.

Overall, they should be well disposed towards ABB, despite the bad news on Asia. There is an upturn in domestic engineering orders in Germany, for instance. As further benefits show, though, from cost-reductions, ABB's rating should improve. It currently trades in line or somewhat below European rivals. Given its record this looks a little harsh.

UK economy

For all the cacophony of distress from UK manufacturers, yesterday's inflation report was a reminder that monetary policy remains firmly focused on the labour market. Despite daily evidence of a slowing economy, plunging confidence and rising unemployment, the monetary policy committee continues to fret that, without higher interest rates, exuberant earnings growth may fuel inflation.

This disjuncture between output and inflation prospects is clearly the result of failure to tighten policy in a timely fashion in 1996-7. That is the legacy the MPC is grappling with. But it needs to guard against the danger of fighting yesterday's battles; not doing enough in the past is not an excuse for future overkill.

Fortunately, yesterday's average earnings data provide the MPC with some hope of squaring the circle. Average earnings growth of 5 per cent is still too high, but the three-month trend is reassuring. On its own, this might not be enough to stave off higher interest rates. But the increasingly unstable international backdrop should give pause for thought. It is true, all other things being equal, that the likely decline in sterling shifts the onus towards higher interest rates. But with the full effects of collapsing activity and devaluation in Asia still to reach these shores, all things are emphatically not equal. Sitting tight seems the best policy right now.

BSkyB

As British Sky Broadcasting's ambition to dominate the UK digital television industry entails big spending, managing short-term expectations is proving a challenge. The company's 37 per cent underperformance since the start of 1997 demonstrates that. But since BSkyB has decisively outmanoeuvred its terrestrial rival, On Digital, ahead of the launch of the new multi-channel format, the time for investors to be cautious is past.

The 14 per cent fall in 1997-98 earnings is just the type of short-term downside investors must accept as the price of value creation through the rapid build-up of subscribers. A 64 per cent rise in marketing costs – as the company built up the Sky brand – should reap dividends when competition from cable operators and On Digital starts. And the 21 per cent increase in programming costs reflects BSkyB's credo that viewers care about content, not hardware. This has given BSkyB a clear content edge over On Digital, and costs should not need to increase at this rate for much longer.

The rewards for BSkyB's far-sightedness, however, should be large. Its target of providing pay-TV services for a quarter of the UK's 24m television households by 2003 looks achievable, particularly if it can overcome pockets of dish-phobia. BSkyB looks well placed to dominate not only UK pay-TV but also the nascent electronic shopping sector. The era of share price underperformance should be over.

Kohl pledges tax cuts and accuses SPD of blackmail

By Ralph Atkins and Tobias Buck in Bonn

Chancellor Helmut Kohl of Germany promised yesterday that sweeping tax cuts would be the first act of his government if re-elected on September 27. He accused his Social Democratic (SPD) opponents of "blackmail" for suggesting that reform could come only with a change of leadership.

Mr Kohl's alliance of Christian Democratic and Christian Social parties (CDU/CSU) also pledged a tougher line on immigration as well as putting a strong accent on devolving decision-making to nations and regions within the European Union. Mr Kohl warned that "without such a move, the grand idea of the European Union will fail".

Unveiling the economic and European policy chapter of his election programme, Mr Kohl complained of an "international attempt" by left-wing European politicians to help the SPD. He cited recent comments by Milos Zeman, the Czech prime minister, and Jack Lang, the former French arts minister.

Mr Kohl said implementing tax reform would be "the very first thing we do". As well as simplification of a notoriously complex system, the ruling coalition backs cutting basic rate income tax from 25.9 to 15 per cent and the top rate from 53 to 39 per cent. Its attempts to implement reform have been frustrated by the SPD's majority in the Bundesrat, or second chamber of parliament.

Oskar Lafontaine, SPD chairman and finance spokesman, has said that if his party fails to win it will continue to resist the government's tax reforms. But Mr Kohl yesterday accused Mr Lafontaine of "a level of cynicism and arrogance that is completely out of order. It is a kind of blackmail."

Mr Kohl insisted his centre-right coalition still had a "good chance" of re-election. An Allensbach institute poll yesterday put the Social Democrats 11 percentage points ahead of the CDU/CSU. But the survey suggested the SPD's lead was narrowing, and other polls have shown a much smaller gap.

At the same time, the popularity of Gerhard Schröder, the SPD's chancellor candidate, had fallen significantly, said Allensbach. Theo Waigel, the federal finance minister who has forced through substantial public spending cuts, was more popular than Mr Lafontaine.

Mr Waigel, who is also CSU leader, said Germany's economic upswing would continue into 1999 and remain largely unaffected by Asia's economic crisis. Growth was being helped by stable currency conditions that would continue with the introduction of the euro, the European single currency, in January 1999. "The euro speaks German," Mr Waigel said.

Editorial Comment, Page 11

Big reinsurance groups resist Indonesian riot damage claims

By Sander Thoenes in Jakarta

Munich Re, Swiss Re and other big reinsurance companies are resisting hundreds of millions of dollars in insurance claims filed by Indonesian companies after the May riots.

The Singapore Reinsurance Association, which includes Munich Re and Swiss Re, argues that thousands of shops, supermarkets and office buildings that were plundered, set on fire and ransacked should not be reimbursed for damage because the violence amounted to a widespread popular uprising rather than isolated riots.

The decision has put the revival of the country's battered food distribution network at risk. Shopowners say it is also a test of consumer trust in insurance companies in Indonesia, where insurance is a relatively new concept.

"With each passing day, new evidence has been uncovered which tends to point out that the riots were organised," the Singapore Reinsurance Association said in a memorandum last month to its members. "It was never the intention of insurers and hence reinsurers to cover widespread losses such as these."

Munir Sjamsoeddin, chairman of the Insurance Council of Indonesia, which groups more than 100 general insurance companies, said it had at first come to the same conclusion. But it now believes the events of May, which led to the downfall of former president Suharto, are not covered by "the exclusions in the policy – civil commotion, terrorism or war. There is no proof that it was organised."

Mr Munir denied claims that the council had given in to pressure from the government. Some foreign insurance ventures in Jakarta have started paying claims but Munich Re and Swiss Re do not have operations in Indonesia.

Mr Munir said 90 per cent of more than 10,000 policies which covered riots, worth about Rp20,000bn ($1.5bn), had been reinsured abroad. But he could not say how many clients had put in a claim, or for how much. Munich Re put the claims at about DM1bn ($500m) but said its own exposure was about DM30m.

The real concern of reinsurance companies, executives in Jakarta say, is that paying out on these claims would set a precedent in a country that is far from stable. "They are afraid of what would happen if riots occur again," one official said. "They would have to pay again."

The Indonesian council is trying to persuade the Singapore Association to soften its position. The outcome of talks between the two bodies could also determine the future of some of Indonesia's prime retailers.

"We have riot insurance," said Ipung Kurnia, chief executive officer of the Hero group, which claimed more than Rp70bn in damages to 26 of its supermarkets. "What's the use of having that if we don't get paid?"

The Singapore Association has already modified its earlier outright rejection of claims. It has suggested that members make partial payments on the condition that the clause covering riots is toughened from September in policies due for renewal.

But Mr Munir of the Indonesian association said some London-based reinsurance companies, which had at first agreed to pay, had taken a tougher line and joined forces with the members of the Singapore Association.

Police jailed, Page 4

CONTENTS

FT.com
FINANCIAL TIMES

Directory of online services via FT Electronic Publishing

FT.com: the Financial Times web site; online news, comment and analysis.
http://www.FT.com
The Archive: online archive of back issues of the newspaper since July 1996.
http://www.archive.FT.com
Newspaper subscriptions: information, offers and online ordering.
http://www.ft.com/newspaper/subscribe.htm
FT Annual Reports Service: online ordering of annual or interim reports and accounts of 1200 UK plcs
http://www.ft.com/newspaper/222a.htm
Cityline: how to get share prices and market reports by telephone and faxback.
http://www.ft.com/newspaper/2178.htm
Surveys: details of forthcoming editorial surveys.
http://www.ft.com/newspaper/2366.htm

Taliban fighters in Afghanistan load a multiple rocket launcher at the front line north east of Kabul during their latest advance. Page 6 AP

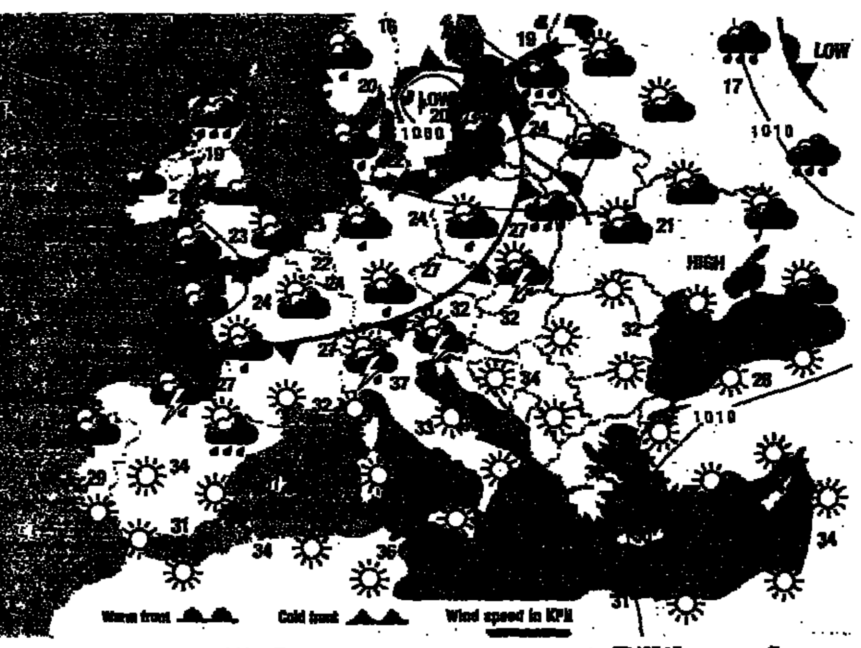
FT WEATHER GUIDE

Europe today

Southern Scandinavia will have heavy, thundery rain. Northern parts will be dry with sunny spells but cool. A frontal system will bring rain and thunderstorms to an area from the Baltic countries and Poland to the Alps. Western Russia and eastern Europe will be fine with sunny spells. Western and central Europe will become fine with sunny spells, but cooler than recently. Northern Spain will have thundery showers. Elsewhere in the Mediterranean, it will be sunny.

Five-day forecast

North-western Europe will continue cooler than recently with sunny spells, but there will be showers across the region over the weekend. These will turn heavy and thundery over the Alps. Western Scandinavia will be unsettled with spells of rain. The Mediterranean will remain hot and sunny.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Fair	40
Accra	Rain	28
Algiers	Sun	34
Amsterdam	Fair	21
Athens	Sun	36
Atlanta	Thunder	30
B. Aires	Fair	14
B.ham	Fair	21
Bangkok	Shower	33
Barcelona	Sun	32
Beijing	Fair	33
Belfast	Shower	19
Belgrade	Sun	33
Berlin	Shower	24
Bermuda	Fair	31
Bogota	Rain	18
Bombay	Rain	30
Brussels	Fair	22
Budapest	Sun	32
C.hagen	Shower	22
Cairo	Sun	35
Caracas	Cloudy	32
Cardiff	Fair	21
Casablanca	Fair	25
Chicago	Fair	28
Cologne	Shower	23
Dakar	Fair	30
Dallas	Thunder	35
Delhi	Cloudy	28
Dubai	Fair	42
Dublin	Cloudy	21
Dubrovnik	Sun	32
Edinburgh	Shower	19
Faro	Sun	28
Frankfurt	Shower	25
Geneva	Thunder	29
Gibraltar	Sun	32
Glasgow	Shower	19
Hamburg	Shower	22
Helsinki	Fair	19
Hong Kong	Cloudy	30
Honolulu	Fair	31
Istanbul	Sun	31
Jakarta	Cloudy	32
Jersey	Fair	20
Johannesburg	Fair	22
Karachi	Sun	36
Kuwait	Sun	49
L. Angeles	Sun	29
Las Palmas	Fair	28
Lima	Cloudy	20
Lisbon	Sun	29
London	Fair	23
Lux.bourg	Shower	24
Lyon	Thunder	28
Madeira	Sun	27
Madrid	Fair	34
Majorca	Sun	31
Malta	Sun	33
Manchester	Cloudy	19
Manila	Fair	34
Melbourne	Rain	16
Mexico City	Cloudy	30
Miami	Thunder	33
Milan	Sun	35
Montreal	Sun	24
Moscow	Fair	17
Munich	Shower	28
Nairobi	Fair	22
Naples	Sun	36
Nassau	Thunder	33
New York	Fair	28
Nice	Sun	30
Nicosia	Sun	34
Oslo	Rain	20
Paris	Fair	24
Perth	Fair	21
Prague	Thunder	27
Rangoon	Rain	30
Reykjavik	Rain	13
Rio	Fair	26
Rome	Sun	33
S. Frsco	Sun	25
Seoul	Shower	30
Singapore	Thunder	32
Stockholm	Rain	20
Strasbourg	Thunder	26
Sydney	Fair	18
Tangier	Fair	27
Tel Aviv	Sun	34
Tokyo	Fair	26
Toronto	Sun	25
Vancouver	Fair	25
Venice	Sun	34
Vienna	Thunder	32
Warsaw	Fair	27
Washington	Fair	30
Wellington	Fair	11
Winnipeg	Fair	28
Zurich	Thunder	26

هدية من الاهل

FINANCIAL TIMES

COMPANIES & MARKETS

THURSDAY AUGUST 13 1998 Week 33

INSIDE

Mediobanca in move to revive bank merger talks

Mediobanca, the Milan-based investment bank, again tried to encourage a merger between Banca Commerciale Italiana and Banca di Roma. HdP, the holding company linked with Mediobanca, sold its 1 per cent stake in Credito Italiano while boosting its holding in BCI, Credito's main Milan rival, to 2.2 per cent. Page 15

Electronic trade accepted in Chicago

There is now a widespread realisation that screen-based trading systems will play a significant role at the world's two largest futures exchanges – the Chicago Board of Trade, chaired by Pat Arbor, and the Chicago Mercantile Exchange, chaired by Scott Gordon (left). The question is no longer when or whether the exchanges will adopt electronic trading, but how. Page 20

BT to buy Concert stake from MCI

British Telecommunications is to pay $1bn for MCI's 24.9 per cent Concert Communications stake after MCI's takeover by WorldCom, a rival US group. It will be the last deal in the episode in which BT lost a struggle with WorldCom for MCI last year. Page 18

Sumitomo pays $99m to settle suits

Sumitomo Corporation, the Japanese trading group, took another big step towards cleaning up after the copper market fraud committed by Yasuo Hamanaka, its chief trader, by agreeing to pay $99m to settle six class action lawsuits filed against it in New York. Page 22

Manila shares slide to 66-month low

Manila's benchmark composite index took another drubbing, ending down 4.8 per cent at a 66-month low. It is now 29 per cent down on the year. The country is losing what little lustre it had as the extent of its economic downturn becomes clearer and traders take fright from new president Joseph Estrada (left), the populist former movie star. Emerging Market Focus, Page 32

Strike closes world's largest mine

The world's largest gold and copper mine, in Irian Jaya, has shut down because of a strike by part of its workforce. The Indonesian affiliate of US group Freeport McMoRan Copper & Gold, which runs the mine, said up to 4,000 workers had walked off the job on Tuesday. Page 22

COMPANIES IN THIS ISSUE

CROSSWORD, Page 22

MARKET STATISTICS

CalEnergy to use UK experience

Northern Electric lessons to be applied at MidAmerican

By Tracy Corrigan in New York

CalEnergy, the US-based power company, is to apply the experience gained through its UK subsidiary, Northern Electric, to its $4bn acquisition of MidAmerican Energy.

CalEnergy confirmed yesterday it had agreed to buy MidAmerican, which provides electricity to customers in the Midwest. It was the first move by CalEnergy into distribution in the deregulating US market.

David Sokol, CalEnergy chairman and chief executive, said the information technology systems of Northern Electric had allowed it to tap new customers outside Northern's geographical retail base, and that these skills would be applied to the development of MidAmerican. MidAmerican's distribution base is in the Midwest, but CalEnergy owns generation in the west and north-east.

Mr Sokol dismissed speculation that CalEnergy might divest Northern Electric, which it bought in December 1996 for £782m ($1.27m).

"We're there to stay," he said. "We want to make it clear we are not selling Northern Electric."

A wave of acquisitions of UK electricity companies in the wake of privatisation has been followed by a spate of divestments. Entergy has put London Electricity up for sale and Dominion Resources sold East Midlands Electricity.

CalEnergy will pay $27.15 cash per MidAmerican share, a 36 per cent premium to Tuesday's closing price, valuing the company at $4bn, including $1.4bn of debt and preferred stock. The companies also said they had signed a letter of intent to develop a 600 megawatt gas-fired power plant to sell power into Illinois and other markets, and cited this as an example of the new company's ability to "pursue opportunities . . . as the Midwest power market deregulates".

Analysts said the deal fitted CalEnergy's strategy of acquiring US distribution. It is the first time that an independent, unregulated power producer has bought a regulated utility with generation and distribution. Most deals in the sector have been driven by consolidation, or convergence of electricity and gas, according to Kyle Rudden, power analyst at J.P. Morgan. "It's a unique deal," he said.

However, he added that although the deal would diversify CalEnergy's earnings and provide a substantial asset base from which to grow, the premium was one of the highest seen in the sector. "I will say that they paid up," he said.

He also warned that it was unclear "how profitable it will be to own the retail customer base" in a deregulated US electricity market. The company said the deal would be accretive to earnings in the first year after completion.

Mr Sokol will be chairman and chief executive officer of the renamed MidAmerican Energy Holdings Company following the completion of the deal. Stanley Bright, chairman, president and chief executive officer of MidAmerican, will become vice-chairman of the board and a member of its executive committee. The company will be based in Des Moines, Iowa.

Virgin to return to capital markets

By Jonathan Ford

Richard Branson's Virgin Group is expected to return to the capital markets this autumn for a round of fund raising designed to refinance existing debts and release capital for investment in new business ventures.

The exercise will involve a high yield bond issue of up to £300m in October for Virgin Entertainment, which owns the group's interests in cinemas and retailing.

This is partly to refinance the £145m ($240m) spent on buying the W.H.Smith retail group's 75 per cent stake in Virgin Our Price, the record chain, last month.

Mr Branson is still considering whether to list Virgin Atlantic on the stock market in a move that could value the long haul airline at up to £1bn.

Virgin, which is one of the UK's largest private business groups with sales of nearly £3bn, said it was in talks with two mobile phone networks, one of which is understood to be Cellnet, about launching a mobile phone service in the UK.

If Virgin goes ahead with this project, it would follow on the heels of a number of other ventures the group has launched in the past four years.

These ventures include V2, Mr Branson's new record company, and Virgin Direct, his pensions and unit trust business.

Not yet cleared for take-off: Richard Branson is still pondering a Virgin Atlantic offering

The Financial Times today publishes an analysis of Virgin's expansion over that period, looking at the group's cash flows and how it has financed these new ventures.

It shows that the Virgin group has spent more than it earned in the last two years, mainly because of the cost of funding start-up ventures.

The funding requirement is not large in the context of the group's size, but has occurred at a time when Virgin's mature, cash-generating businesses, particularly Virgin Atlantic, have been enjoying favourable trading conditions.

Mr Branson has said these cash flow deficits are immaterial because of the way Virgin has financed new ventures, and that the group has sought outside partners that often contribute much of the cash the ventures need to spend.

Analysts upbeat on BP-Amoco merger

By Robert Corzine in London and Richard Waters in New York

Investors and analysts yesterday welcomed British Petroleum's agreed £30.3bn ($50bn) takeover bid for Amoco of the US as markets digested the implications of the world's biggest industrial merger.

BP shares were up for most of the day, although they came off in late trading to close 1p down at 794p. Analysts were generally upbeat about the deal, which will create the UK's biggest company. It will also propel BP-Amoco, as the new group will be known, into the top tier of the international oil industry.

Sir John Browne, BP's chief executive and the man who will take charge of the new merged company, flew to New York to brief US analysts and investors, while other executives began working on an ambitious timetable to close the deal by the end of the year.

Although reaction was mainly positive, there was scepticism about some aspects of the agreement. Several analysts questioned whether job losses could be kept as low as 6,000. Some estimates suggested total worldwide job losses could eventually run to 20,000 if BP-Amoco was to match the performance of Exxon, the most capital efficient of the world's three top listed oil companies.

In New York yesterday Larry Fuller, Amoco's chairman, confirmed that "there is quite a lot more potential for more people reduction".

There was considerable speculation about the fees the two companies will pay to their advisers. There were suggestions that BP would pay as much as $250m, although one person close to the company said its total advisory bill was unlikely to be above $50m-$60m. He said BP's in-house mergers and acquisition team laid much of the groundwork for the deal and the advisers were mainly involved in an "intense but brief flurry of activity at the end of the negotiations".

Executives confirmed that much of their focus would be on improving profitability in the US refining and marketing sector, in which the combined group will have a major presence, and where a significant amount of its capital will be employed.

The US downstream is likely to see some of the biggest changes as the two companies rationalise their distribution and retailing systems, according to Mr Fuller.

On Tuesday Sir John said BP-Amoco would not settle for third place among the big three. He said the new group would compete across the board with Shell and Exxon for the most attractive projects in the industry. It also wanted to set the pace of competition.

SAS says alliance made 31% profit rise possible

By Tim Burt in Stockholm

Scandinavian Airlines System yesterday reported a 31 per cent rise in first-half profits as cost savings generated by its membership of the six-airline Star Alliance compensated for modest traffic growth.

SAS, which is 50 per cent owned by Sweden, Denmark and Norway, saw pre-tax profits increase to SKr1.45bn ($179m) in the six months to June 30, up from SKr1.11bn last time, on sales ahead 4 per cent to SKr19.8bn.

The carrier said it was enjoying synergy benefits from the alliance with Lufthansa, United, Air Canada, Thai Airways and Varig of Brazil, particularly in areas such as aircraft maintenance, handling, catering and ticketing.

SAS declined to put a figure on the cost reductions, saying only that they would be comfortably ahead of the SKr325m savings achieved last year. Such savings offset losses incurred from labour disputes in Denmark and Norway.

The airline, whose employees are represented by about 80 different unions, lost SKr350m when much of its long-haul fleet was grounded by Denmark's national strike in May. Cancellations and delays in the second quarter undermined the 6.8 per cent traffic growth seen in the first quarter, and reduced the overall increase in first-half traffic to 1.6 per cent.

Gunnar Reitan, chief financial officer, said the impact of the labour dispute and an unexpected currency loss of SKr229m would hamper full-year growth.

"With reservations for uncertainties in our markets, particularly due to the crisis in Asia, operating income for the full year is expected to be on a level with the 1997 result," he added. Pre-tax profits last year were Skr2.23bn.

The carrier plans to unveil a new corporate livery, its first in 18 years, to coincide with a wide-ranging fleet renewal in the fourth quarter.

First-half earnings per share for SAS Sweden and Norway were SKr6.55, while SAS Denmark reported earnings of SKr5.91.

World stocks, Page 32

Booming Indian software sector faces challenge

By Krishna Guha

India's software sector is enjoying an extraordinary bull run. Investors who bought software stocks on January 1 1996 have made gains of more than 700 per cent while Indian stocks generally have shown zero improvement.

With software companies trading at an average of 19 times forward earnings compared with more than 50 times at most US software companies, analysts say there is room for further appreciation.

However, the industry is still an infant. Its combined $2bn revenues last year, at 2 per cent of the world market, were only fractionally higher than those of Electronic Data Systems of the US. Narayana Murthy, chairman of Infosys Technologies, said: "We have a long, long way to go before we can claim to be legitimate global players."

The challenge is to manage the explosion in size that comes with growth rates of 50-100 per cent a year. "You have to change your management style," said V Chandrasekaran, president at Wipro Infotech.

Some software executives say the answer may be to outsource work to small software houses.

All software companies plan to move up the value chain, but the main obstacle is the product barrier.

No Indian company has produced a software product that has succeeded in developed markets.

Last year at TCS, products accounted for only 10 per cent of sales, with the rest coming from software services. Wipro's sales were made up entirely of services.

Products accounted for only 5 per cent of sales at Infosys, down from 13 per cent the previous year.

Mr Chandrasekaran said: "If you look at the cost of developing a new product, it is 20 per cent development and 80 per cent marketing – where we do not have a comparative advantage."

Infosys and TCS cling to hopes of developing products that can be introduced to markets such as the US. But like Wipro, they are now concentrating on a branding solution to the problem of moving up the value chain. A branded service allows companies to charge a premium for a trademarked set of tools and processes.

Infosys is also looking at leaping the product barrier by acquisition.

The company wants to buy specialist US companies that have fallen on hard times and lack the programming expertise to update their products.

Another way to move up the value chain is through work that borders on management consultancy. But Indian companies face a credibility gap and a lack of market access.

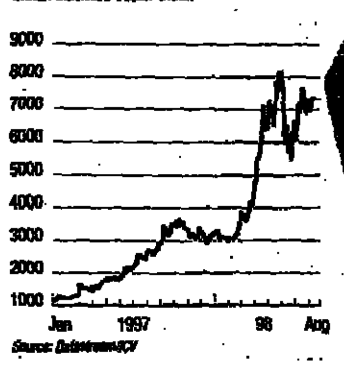
Some have opted to bridge this through strategic alliances.

TCS has formed a partnership with Ernst and Young to bid jointly for international contracts.

Software executives say there is no one high road to success, but different strategies may succeed for different companies. What is evident is that not all will do so.

Firm growth from software

Indian software sector index



Source: Datastream/ICV

LEISURE RESULTS BEAT ESTIMATES BUT ASIA CRISIS HITS DRINKS BUSINESS

Universal's 19% rise bolsters Seagram

By Richard Waters in New York

Seagram's shares recouped some of their recent losses with a 10 per cent jump yesterday morning in New York, following a robust quarterly performance from the company's entertainment division.

While overall earnings were above Wall Street estimates, the Asian economic crisis led the drinks and entertainment group to report declines in both underlying net income and earnings before interest, taxes, depreciation and amortisation (ebitda) for both the latest quarter and its full financial year, which ended in June.

The stock market's enthusiasm was prompted by a 19 per cent increase in earnings at Universal Studios during the quarter, to $125m. The studio generated earnings of $712m for the financial year, an increase of 24 per cent.

Edgar Bronfman, chief executive, said Seagram's acquisition of PolyGram would reinforce the group's entertainment operations, leading to "significant long-term growth and value creation". The shares rose $3¾ to $34¾.

Seagram is keen to conclude the $10.4bn acquisition of PolyGram as swiftly as possible, but can not do so until it has secured the necessary regulatory approvals in the US and Europe.

The acquisition has already been cleared by US antitrust authorities, and Seagram is expected soon to make its final filing with the Securities and Exchange Commission in New York. It will then seek clearance from the European Commission.

The improvements in the entertainment division were countered by the debacle in Asia, however. Revenues from Seagram's drinks business in the Asia-Pacific region were less than half their level of a year before. That, and the rise in the US dollar, contributed to a 29 per cent drop in earnings from wines and spirits in the quarter, to $123m. For the year as a whole, Seagram reported a 27 per cent drop in earnings from the division to $590m, after the impact of a $60m charge related to Asian operations.

Excluding one-off items, Seagram scraped a post-tax profit of $3m in the latest quarter, or 1 cent a share. That compared with Wall Street expectations of a small loss, and with earnings of $48m, or 13 cents a share, the year before. Underlying earnings for the full year fell to $141m, or 40 cents a share, from $306m the year before.

These figures exclude items such as profits from the sale of shares in Time Warner and earnings from Tropicana, the fruit juice business that is to be sold to PepsiCo.

ABN in $1.25bn preferred issue

By Vincent Boland

ABN Amro, the Dutch banking group, raised $1.25bn yesterday in an issue of preferred shares, a type of security that combines characteristics of equity and debt, in a move which boosts its capital base following its agreement to buy Banco Real of Brazil.

The issue is the latest and largest in a series of such issues in the past year by European banks. Preferred securities are tax-efficient tier one capital and are treated as equity by regulators, but they are cheaper than straight equity issues.

Bankers say the securities are an effective way of raising capital for banks wanting to participate in Europe's financial sector restructuring or to expand their operations.

ABN Amro indicated last month when it announced the acquisition of Banco Real – which could cost it up to $3bn – that it would raise new money and maintain its capital adequacy ratios through an issue of preferred securities. Some of the new capital is also earmarked for general corporate purposes.

Spanish and Portuguese banks have been in the forefront of preferred share issuance in Europe this year.

Banco Santander, Argentaria and Banco Espirito Santo have tapped the market in sizeable deals, creating a substantial investor base in the process in their home markets, for what is a new asset class for many European investors.

Preferred securities have been regularly issued in the US for some time but are only now taking hold in Europe. More than $3.5bn had been raised before yesterday's transaction through preferred securities issues targeted at Europe's private client investor base, according to Merrill Lynch.

ABN Amro's preferred share issue was sold to a global investor base even though it was structured as a domestic US deal and was not marketed to European investors. Bankers said the bank's franchise in its home markets and unusually strong European institutional demand helped to create a wider investor base.

Merrill Lynch was bookrunner for the transaction and was joint lead manager along with ABN Amro and Salomon Smith Barney.

The level of investor demand meant the size of the deal was raised from an initial $750m, and it was oversubscribed at $1.25bn. "There is a lot of private client money going into the deal," one banker said.

The new shares have been rated Aa2 by Moody's Investors Service and A+ by Standard & Poor's.

"This is one of the stronger credit names in the preferred share market, whether in Europe or the US," another banker said. "That helped to broaden its appeal in the international arena."

Cendant tries to restore confidence

By John Authers in New York

Cendant, the US direct marketing and franchising group wracked by an accounting scandal for the past four months, yesterday sold Hebdo Mag, a publishing subsidiary, to its management for $410m in cash, in the first of what could be several moves designed to restore investor confidence.

It will follow this by today publishing restated results for 1997, which it hopes will end uncertainty over its financial position.

The group was given another boost yesterday by the announcement that the board of RAC Holdings, which indirectly owns RAC Motoring Services, the UK highway services organisation, had approved its sale to Cendant for $735m.

Henry Silverman, Cendant chief executive and chairman, remains under pressure to boost the share price, possibly through further spin-offs or sales.

He said yesterday that the sale of Hebdo Mag would generate an after-tax book gain of more than $250m. "We have no comparative advantages as owners or managers of Hebdo or our software businesses. Accordingly we have determined these units do not fit within our future business model."


Walter Forbes: former chairman's package includes $35m in cash

Mr Silverman is also coming into renewed conflict with Walter Forbes, who resigned as chairman two weeks ago.

The group's problems started in April, when it announced it had found "accounting irregularities" in a division of CUC International, the direct marketing company which merged with HFS to form Cendant last year. It included Hebdo Mag.

Last month, Mr Silverman, formerly chief executive of HFS, said fraud, including the use of fictitious accounts, and accounting errors accounted for more than 60 per cent of CUC's profits last year.

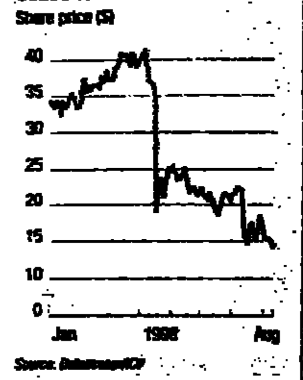
The company's share price, which had been trading at more than $41 before the April announcement, slipped to below $20, and fell below $15 when the extent of the problem was revealed.

Mr Forbes, the former CUC chief executive, resigned after calls for his departure from senior executives and shareholders. Eight other directors associated with CUC also resigned, and the board has been restructured with a majority of former HFS directors.

However, Mr Forbes, who has consistently denied any knowledge of the accounting irregularities, left with a package including $35m in cash and the grant of various options.

This will create an unusual expense of 3 cents a share in the current quarter – equivalent to more than 10 per cent of forecast profits. He was also given a limited release by the company, meaning he cannot be made liable for other accounting irregularities.

Cendant
Share price ($)



Source: Datastream/ICV

People close to Cendant say Mr Forbes' expense claims, which are not covered by this agreement, are now under investigation. At issue are: use of corporate credit cards; bookings for hotels; claims for expenses incurred using his private jets; and his use of large advances in cash.

If Cendant finds significant irregularities in his expenses, it may be able to claw back the package paid to him.

By mid-session yesterday, Cendant shares were at a new post-merger low of $14⅛, down $⅛.

DBS hit by bad loan provisions

By Sheila McNulty in Bandar Seri Begawan

Development Bank of Singapore, Singapore's leading bank and the largest in south-east Asia, reported a worse than expected 50 per cent drop in net profit in the first half of the year, to S$178.6m (US$101m), after sharply increasing provisions for bad loans.

Provisions for probable loan losses and other deteriorating assets increased to S$315.5m from S$52.4m. Of that, S$110.7m was put aside to cover contingencies arising from DBS's regional exposure.

The bank's non-performing loans to the region are growing rapidly. Those in Thailand, Malaysia, Indonesia, the Philippines and South Korea added up to 14 per cent of total loans to the region, or S$771.5m, excluding Thai Danu Bank, which DBS bought in March.

With Thai Danu, the amount of non-performing loans to the region was 22 per cent of total loans to the region, or S$2.51bn.

That was far higher than the amount of non-performing loans to those countries reported at the end of December, which were 5.4 per cent of total regional loans, or S$365.6m.

"It's bad, but not alarming," said Chong Yoon Chou, investment manager at Aberdeen Asset Management Asia. "Singapore banks are the healthiest in all of Asia."

Earnings at other Singapore banking groups have also reflected the regional economic crisis, but analysts say they are not being hit as hard as banks in neighbouring countries, as Singapore's institutions are far better managed and more prudent.

Although DBS will have to work its bad loans off its books, Mr Chong said the bank would benefit from its recent decision to buy POSBank for S$1.6bn.

The smaller bank has focused on the domestic market and is more conservative, lending to first-time home buyers.

DBS is buying POSBank to fortify its position as the one of the biggest banks in Asia. Both institutions are linked to the Singapore government, which will own 53 per cent of the new entity.

The Singapore authorities have been encouraging banks to merge, stressing the importance of size in international banking, as part of a broader effort to build the citystate into an international financial centre. After the acquisition, DBS and its subsidiaries will have assets of S$93.4bn, customer deposits of S$59.3bn and shareholder funds of S$9.4bn.

Durango in $355m US buy

By Henry Tricks in Mexico City

The Rincón family, owners of Mexican packaging company Grupo Industrial Durango, is buying Four M of the US for $355m, in one of the largest ever forays by Mexican industrialists north of the border.

But Miguel Rincón, Durango chief executive, said yesterday the deal needed covenant waivers from bondholders before it could proceed. Durango also planned to sell $150m of non-core assets, such as wood products, to reduce its $560m debt, he said.

The merger, expected to be completed by 2000, is aimed at creating the sixth largest boxmaker in North America, with combined sales of more than $1bn. It would also strengthen Durango's grip on the US-Mexico border region, where its main market is providing boxes for the fast-growing "maquiladora" assembly plants.

The acquisition is expected to produce $44m in cost savings at Four M in the next five years, with immediate overhead cuts of some $18m in two years, the company said.

This year Durango bought two corrugated box plants in Texas from Four M, and the year before it bought the McKinley Paper Company in New Mexico in spite of a sharp downturn in world paper prices.

Industry analysts said they were concerned that Durango might be moving too quickly, before the benefits of the McKinley transaction were seen.

According to Mr Rincón, the family would pay the $355m purchase price with a combination of debt and $40m of private funds.

Dam failure costs hurt Boliden

By Scott Morrison in Toronto

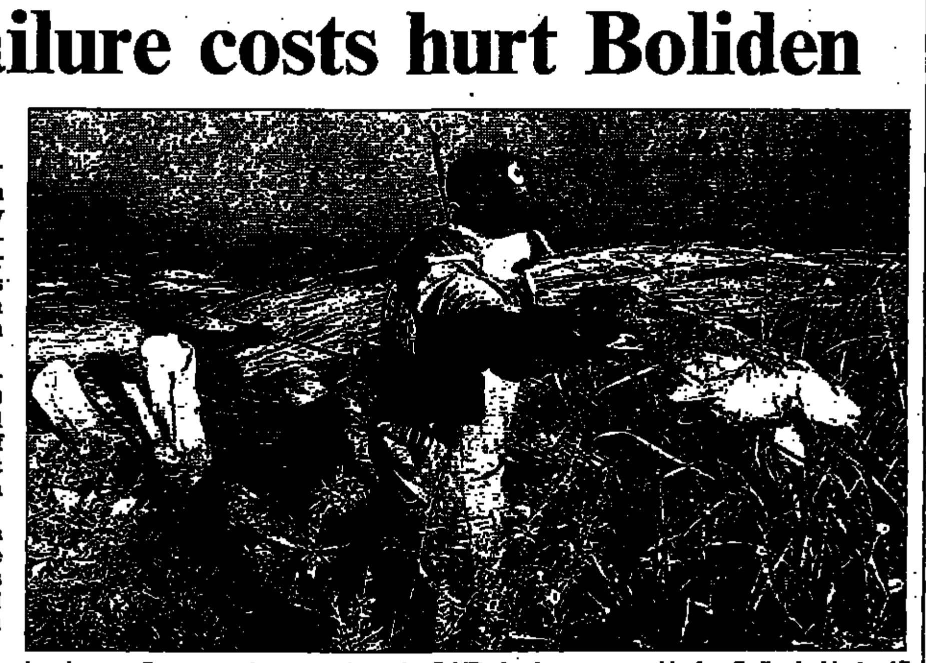
Boliden, the Canadian mining company spun off by Sweden's Trelleborg, yesterday blamed a second-quarter loss on falling metal prices and costs associated with a tailings dam rupture in Spain this year.

Pre-tax losses for the quarter were US$52.1m, or 49 cents a share, compared with restated earnings of US$19.7m, or 20 cents, last time, following a change in accounting procedures.

The group took a US$34m special charge for the failure in April of a dam at the Los Frailes zinc mine operated by its wholly-owned Apirsa subsidiary.

About 4m cu m of acidic water and more than 1m cu m of tailings were discharged into a nearby river, threatening an environmental reserve and damaging farmland.

Legal proceedings are under way to determine responsibility and liability for damages. Operations at Boliden's Spanish mine are expected to resume by the end of this year, once the clean-up operation is complete.


Legal proceedings are under way to determine liability for damage caused by Los Frailes incident AP

Excluding the US$34m charge, the company lost US$18.1m, or 17 cents a share. Boliden was expected to report a loss of 28 cents a share, according to one analyst survey.

Revenues for the quarter were down at US$265m, compared with a restated US$304m for the same period last year. This was the result of falling metals prices and scheduled maintenance shutdowns at a copper smelter in Sweden and a 50 per cent owned zinc smelter and refinery in Norway.

BCE under pressure to consider partnerships

By Scott Morrison

Recent mergers and alliances in the telecommunications sector have heightened speculation over whether BCE, the Canadian telecoms group, will successfully consummate a partnership with a US carrier to better serve its top corporate customers.

The company, which owns Bell Canada, the Ontario and Quebec service provider, has been under pressure to respond to rapid technological change, convergence and consolidation.

Jean Monty, BCE chief executive, has said he intends to exploit the growing market for high speed internet service and corporate data communications. That means he can not afford to ignore a partnership with a US carrier that would provide BCE with access to a high-speed global network.

Mr Monty has said his company, which had 1997 revenues of C$33bn (US$21.7bn), is involved in discussions with various potential US partners and could make an announcement by September.

While Qwest and Level 3 are seen as possibilities, BCE's favoured partner would be the merged WorldCom/MCI group, particularly due to WorldCom's internet focus.

The case is more compelling given that MCI and BCE were partners in the now defunct Concert alliance and continue to share technology.

WorldCom declined to comment on a possible partnership with BCE, saying it was focused on completing its merger with MCI.

It is not clear how such an arrangement would be structured, as BCE has a number of options. The most likely is that BCE would offer WorldCom/MCI an equity stake in its C$750m national broadband network that would provide high speed data and internet services to corporate customers.

BCE would secure cross-border originated traffic for its network, as well as benefit from MCI's technology and billing platforms.

WorldCom/MCI, in turn, would be able to provide clients with end-to-end service between Canada and other nations.

Another possibility would be for BCE to form an alliance with the US carrier and engage in a limited share swap agreement.

However, analysts say that a share swap between BCE and its US partner could result in a messy divorce should the alliance eventually fall apart.

A more unlikely scenario would be a merger. That, however, would amount to a takeover by the larger WorldCom/MCI group, with BCE shareholders controlling a minority interest in the combined entity.

Analysts doubt Mr Monty would be willing to consider such a transaction. There are also restrictions on foreign ownership of Canadian telcoms groups.

A final option available to BCE would entail forming a joint venture with a US carrier, similar to that recently announced by AT&T and British Telecommunications. The two groups are to create a new entity to meet the growing demand for high speed internet and corporate data communications.

But the significant capital investment required to create a new international joint venture would likely dissuade BCE from adopting such a strategy.

NEWS DIGEST

DIAMONDS

Ashton Mining loses both senior officials

Ashton Mining, the Australian diamond producer, lost both its chairman and chief executive yesterday, amid speculation that investors had been unhappy with their performance. The company said N. R. "Nobby" Clark, chairman, and John Robinson, chief executive, had resigned with immediate effect. Analysts said Mr Clark, 69, had been expected to retire this year, but Mr Robinson's departure was a surprise.

They suggested the departures were probably spurred by Australian investment institutions unhappy with Ashton's share price performance – it has nearly halved in the past year from A$1.84 to 94 cents – with backing from Malaysia Mining Corporation, which owns 47.3 per cent of Ashton.

Ashton owns 40 per cent of the Argyle mine in Western Australia, in volume terms the world's biggest producer. The rest is owned by Rio Tinto, the Anglo-Australian group. Argyle quit the diamond cartel organised by De Beers of South Africa in 1996, since when Ashton's sales and margins have fallen sharply.

"I think the decision to leave [the cartel] may have cost him [Robinson] his job," one Melbourne analyst said. Ashton's share price has been particularly weak since May, when it made a placement and announced a 1-for-10 rights issue to fund three development projects. The issue, at A$1.15 a share, was 50 per cent undersubscribed and institutions were left with big parcels of excess stock. MMC took its full entitlement of the rights issue.

Paul McClintock, formerly deputy chairman, replaced Mr Clark and Douglas Bailey, finance director, is acting as chief operating officer pending Mr Robinson's replacement. **Kenneth Gooding, Mining Correspondent**

SOUTH AFRICA

Amplats jumps 171%

Anglo American Platinum Corporation (Amplats), the platinum arm of South Africa's Anglo American conglomerate, benefited from the falling rand, strong dollar prices for its products – especially palladium – and increased output to help raise its net profit in the year to June by 171 per cent to R1.64bn ($257m).

Amplats said yesterday that R519m of the net profit was a one-off surplus on the sale of its investments in diamond trading companies. However, even without that, earnings were up 85 per cent and would probably continue to improve in the current year. "Should the rate of exchange remain above R6 to the US dollar and metal prices in US dollars remain at current levels, Amplats's headline earnings in the 1999 financial year will show significant growth," the company said.

Global demand for platinum for both jewellery and industrial use remains firm, with growing jewellery sales in China and the US more than offsetting falling demand in Japan. Supplies of both platinum and palladium have been curtailed by lower-than-expected Russian output.

Amplats plans to take advantage of the shortfall of platinum group metals by further increasing production, using its improved cash flow to finance a R1.6bn expansion plan. The company is also negotiating to buy Northam from Gold Fields of South Africa.
Victor Mallet, Johannesburg

NORWAY

Lawsuit hits Elkem result

Elkem, the Norwegian metals producer, yesterday reported a 15 per cent fall in first-half profits, to NKr297m ($39m), mainly because of the NKr165m cost of settling a price-fixing case in the US.

Income before that and other extraordinary items rose from NKr514m to NKr608m. The results were still better than analysts' expectations, which had factored in the cost of the class action lawsuit against Elkem Metals Company in the US. "Accounting-wise we are finished with this case," said Baard Haugen, Elkem chief financial officer. "But there are some remaining companies which are not settled and which we tried to accrue for [in the NKr165m charge]. It could be more, it could be less than that."

Income from operations rose from NKr544m to NKr648m, after taking into account a non-recurring profit of NKr28m for discounts on earlier deliveries of electric power to its Icelandic Alloys plant. Sales rose to NKr5.22bn, from NKr4.71bn. **Valeria Sköld, Oslo**

TELECOMMUNICATIONS

Mobilcom surges to DM53.2m

Mobilcom, the fast-growing German telecommunications company, yesterday reported a sharp jump in first-half sales and profits and said further rapid growth was in prospect. Pre-tax profits rose 391 per cent to DM53.2m ($29.8m), with net income up 402 per cent to DM27.2m. Earnings per share rose from 40 pfennigs to DM2.

Gerhard Schmid, chairman, said turnover should pass the DM1bn mark for the full year, after a 212 per cent rise in the first half to DM461m. The interim figure included DM162m in the second quarter from a new acquisition. Mr Schmid said the company's mobile telephone customers had increased from 230,000 in the first half of last year to some 690,000. Since the Schleswig-based company came to Germany's Neuer Markt for young, innovative companies more than a year ago, its shares have soared. Yesterday, they gained DM30 to DM600.
Andrew Fisher, Frankfurt

SOFT DRINKS

Ocean Spray attacks PepsiCo

Ocean Spray Cranberries, the Massachusetts-based cranberry products group, has filed a federal lawsuit against PepsiCo to prevent the group from selling single servings of Tropicana juices. PepsiCo announced last month its intention to purchase Tropicana from Seagram for $3.3bn.

PepsiCo has distributed Ocean Spray's single-serving juice products since 1992, and Ocean Spray says its contract with PepsiCo forbids it to sell any competing beverages. Single servings accounted for $225m of Ocean Spray's $1.44bn total sales last year.

Pepsi said it would abide by its contract with Ocean Spray. **Victoria Griffiths, Boston**

BANKING

Three bid for Israel Discount

Three groups have applied to bid for a controlling stake in Israel Discount Bank, the country's third largest, signalling that the government's bank privatisation programme is proceeding as planned.

M. I. Holdings, the government agency responsible for privatising banks, said one of the bidders was IRR-Leucadia, led by Jeffrey Keil, former president of Republic National Bank of the US. Mr Keil failed to acquire Bank Hapoalim, Israel's biggest, last year. The other two groups are headed by Israeli businessmen Shlomo Eliahu and Benny Steinmitz. **Avi Machlis, Jerusalem**

COMPANIES & FINANCE: THE BP-AMOCO MERGER

Challenge thrown down to top-tier rivals

By Robert Corzine

The 60-40 equity split in British Petroleum's takeover this week of Amoco of the US must have struck a certain resonance at Royal Dutch/Shell. For it is exactly the same split in ownership between Royal Dutch and Shell Transport and Trading, the two companies that form the world's most enduring unconsummated merger.

One analyst said Shell could not ignore the implied challenge. The rivalry between the two groups is well known in the industry, and has only intensified in recent years, as BP's reputation among investors has risen while Shell's has fallen.

Yesterday Shell executives in London were once again wondering why BP seems consistently able to beat the Anglo-Dutch giant in the public and investor relations stakes. Some within Shell see their company's obsession with BP's performance and strategy as unhealthy. They worry that it diverts senior managers from more productive duties. But the extent of that obsession should not be underestimated, they say.

Such emotions are matched on the BP side, where executives appear equally obsessed with "beating Shell", or at least showing it up as slow or plodding in adopting progressive policies, or performing against more demanding industry norms.

The consensus among analysts yesterday was that the BP-Amoco deal will have a lasting impact on the top tier of listed international oil companies, which now includes Shell, Exxon of the US and BP-Amoco. "Shell and Exxon used to have a lockhold on the largest asset plays," said Joe Stanislaw, a consultant with Cambridge Energy Research Associates. "Now the balance is sure to shift."

Analysts do not expect a knee-jerk reaction by either Exxon or Shell, but say that both will have to sharpen their performance.

Shell, which is the middle of a long-term cultural transformation and a deep restructuring of some business units, such as its underperforming chemical division, will no doubt be hoping that BP-Amoco becomes mired in the complexities of integration.

Last week Mark Moody Stuart, the new Shell chairman, told the FT about the difficulty of putting two very large oil companies together. He said Shell's two downstream refining and marketing joint ventures in the US with Texaco and Saudi Aramco proved "slow to start". They also involved a "couple hundred people" concentrating on the merger for a prolonged period, rather than on the underlying business. "When you merge two very large organisations, you can get hypereconomies of scale," he said. "But cultural and regulatory problems can certainly slow you down."

The speed with which BP-Amoco can make itself a force in oil's "super league" will be an important factor in how big a long-term threat it poses to Shell and Exxon.

The longer the integration takes, the less able the new group will be to bring BP's commercial strengths to bear on a wider competitive landscape.

The big test is likely to be in how well it fares in striking deals in countries with large undeveloped reserves, and which are opening to foreign investment. "Can you imagine the next time Shell sits down to negotiate in Tehran?" asks Fergus MacLeod, at brokers BT Alex Brown in Edinburgh. "They will no longer be in a league of their own. As [Sir John Browne, BP-Amoco's chief executive] said, this week's deal is all about choice, and it is in places like Iran where it will be felt."

Exxon is also expected to feel the pressure. It has consistently produced the best returns on capital employed among the leading oil groups, but it has done so in a way that shrinks its share base, rather than by emphasising growth. Exxon is likely to be loath to abandon a tested formula; after all, investors have been willing to support a premium in Exxon share price in exchange for predictability of earnings growth.

The question is whether Exxon can afford to accelerate a process that constantly shrinks its capital base, or whether it goes head to head with BP-Amoco and Shell in securing future growth.

BEHIND THE SCENES

Partners quiet over who made initial approach

By Virginia Marsh, Robert Corzine and Jane Martinson

A day after news of their merger stunned the oil world, BP and Amoco yesterday remained coy about who wooed whom, and when.

BP would not comment on suggestions that talks had begun as long ago as six months, saying only that they had lasted for "several months". And the two companies' bankers repeated the line that neither side had made the first move.

BP said issues such as the new entity's name and top management were settled early on, yet just minutes before Tuesday's analysts' meeting, Sir John Browne and Larry Fuller, Amoco chairman, were still locked away in Sir John's office at Britannic House. Senior executives from both companies milled around outside the closed door or checked computer screens for the latest share price.

"Who picked up the phone first, you can't tell," said Rod Peacock, who led the J.P. Morgan team that advised BP. Rather than being dreamed up by an investment banker, the merger had evolved from regular contacts between two companies that had known each other well for years, he added.

Several bankers not involved in the deal said they thought BP had contacted Amoco. Once it had done so, it found a willing partner.

One area where plenty of details have been forthcoming, however, is over the management structure.

The decision to establish early on – in a project codenamed Belgium in the US and Eagle in the UK – who would take the top jobs, and the insistence on a single chief executive, contrast with other recent mega-mergers.

Sir John, who is a non-executive director of SmithKline Beecham, the pharmaceuticals group, is said to have been deeply disturbed that earlier this year a proposed merger between the group and Glaxo Wellcome failed because of conflict between top executives.

Analysts were speculating yesterday whether power would be as concentrated in Sir John's office at BP-Amoco. Almost all of the top 15 executives named to head the new group are to be based in London.

Sir John is apparently keen to put in place a corporate structure that will keep him close to the assets. The 15 top managers are expected to control 172 assets worldwide, leaving no more than three management layers between Sir John and the assets that generate cash flow.

The 22 strong board – where BP will nominate 13 directors and the majority will be non-executives – will have two co-chairmen, a chief executive with two deputies and a chief financial officer – John Buchanan, BP's finance director.

While the board reflects BP's dominance in a deal billed as a merger, the fact that Amoco's top executives are older and closer to retirement than their UK counterparts has also clearly been a factor.

For example, Mr Fuller, who will be co-chairman of BP Amoco until his retirement in 2000, is 59, while Bill Lowrie, the Chicago-based group's president (who is set to head refining and marketing, and chemicals, as one of two deputy chief executives) is 54. Theodore Sosa, Amoco's executive vice-president in charge of chemicals, who will work under Bryan Sanderson, BP's chemicals chief, is 57.

Sir John is 50, while Rodney Chase, his deputy, who like his boss has spent three decades at BP, is 54. He is to head exploration & production, whose operations in the western hemisphere will be managed from Houston, Texas.

With the global headquarters in London, Amoco's head office in Chicago will become the centre for North American refining, marketing and transportation business, and eventually the worldwide chemicals business. The Amoco brand is to be extended to BP's US retail operations but in the rest of the world the BP brand will prevail.

ACCOUNTING

Transaction seen as merger

By George Graham, Banking Editor

British Petroleum's deal with Amoco may look to the outside observer like a takeover of the smaller US company, but the transaction will be accounted for as a merger under UK accounting rules.

Gordon Dyal, the Morgan Stanley corporate financier who advised Amoco, said accountants on both sides of the deal had assured management it would be treated as a merger. "We believe this will be and should be accounted for as a merger in the US and UK," he said.

UK merger accounting allows the new company to write off goodwill – the difference between the price of the acquired company and the sum of its assets – against its reserves. With an acquisition, goodwill has to be amortised against profits, and so reduces reported earnings per share.

New rules coming into effect in the UK at the end of this year will require goodwill to be shown in the balance sheet and amortised even for mergers.

Merger treatment is allowed in the UK only when the two partners are substantially the same size.

With BP shareholders holding 60 per cent of the combined group and Amoco 40 per cent, this week's deal is close to the boundary. It also gives Amoco shareholders a 15 per cent premium for their shares, while the rule of thumb is that the premium should not exceed 10 per cent.

In theory, analysts should be able to ignore the accounting treatment of goodwill and look straight to BP-Amoco's underlying cash flow.

"The question is whether you feel the underlying economics of the deal change as a result of the way it is accounted for. My belief is that for the investor they don't," said Rod Peacock, who led the J.P. Morgan team advising BP.

In the US, where amortisation of goodwill is the norm, investors judge sectors such as cable companies on the basis of underlying cash flow. This does not appear to be the case for all sectors, and the eagerness of US companies to use pooling of interests, another accounting treatment that avoids the amortisation of goodwill, suggests that the issue is still live.

"Pragmatically, it is still the case that the single most important indicator of an industrial company's performance is its earnings per share," said an investment banker not involved in the deal.

CHEMICALS GROUP'S SPREAD WILL PROVIDE PROTECTION AGAINST CYCLICAL DOWNTURNS

Role fortified in growth markets

Source: companies

By Jenny Luesby

Executives at Elf, the French oil company, must be wondering what partnership means, as they adjust to a world in which BP and Amoco are merged.

Through its chemicals arm, Elf Atochem, the French group is a BP partner. The two run a polypropylene venture, Appryl. The arrangement is exclusive: neither company can do anything on its own.

But BP could not risk a leak by talking to its polypropylene partner about how to reorganise the joint venture, which accounts for about 5 per cent of its chemicals operation. Atochem was not available for comment yesterday.

Of the world's five bulk commodity plastics, polypropylene is the only one enjoying strong market growth, and BP-Amoco would be the second-largest producer.

The union sets up an even stronger position in the other commodity petrochemical enjoying a thriving market – PTA, the raw material for polyester fabric and plastic. This market has been growing at double-digit rates for several years.

However, the market's growth attracted so much new capacity that prices nosedived two years ago. Ironically, this slide – which was also the catalyst for the dismantling of Imperial Chemical Industries – has been instrumental in the formation of BP-Amoco.

Amoco was at the front of the pack as a PTA producer, and suffered from the market's collapse. Now, BP-Amoco will account for 37 per cent of the global PTA market as rising sales bring the first signs of recovery.

With polypropylene and PTA set to account for one-third of the new chemical group's production, BP-Amoco is well-placed in two of the only petrochemical markets enjoying strong growth.

The group will also be the world's largest producer of acetic acid, acrylonitrile, aromatics such as paraxylene, and polybutene.

Bryan Sanderson, chief executive of BP's chemicals operation and named as head of the combined chemicals group, said: "If we are going to build large-scale petrochemical complexes in emerging markets, we need to be able to offer the full range."

The spread also protects earnings by pegging the group to a number of cycles.

Maybe that will not matter. If, as Mr Sanderson predicts, consolidation will end with just five or six petrochemical producers in the world, price volatility may be a story of the 20th century.

COMPANIES & FINANCE: INTERNATIONAL

NEWS DIGEST

BIOTECHNOLOGY

Novo Nordisk plans DKr3bn buy-back

Novo Nordisk, the Danish diabetes care and industrial enzymes specialist, delighted investors yesterday with a 46 per cent rise in first-half pre-tax profits and plans for a DKr3bn ($442m) share buy-back.

The shares, which have fallen heavily from their DKr1,200 peak this year, yesterday responded with a 5.8 per cent rise to DKr865. The company said operating income was 42 per cent ahead at DKr1.85bn in the first half, while pre-tax profits surged 46 per cent to DKr1.99bn. Net non-recurring income of about DKr300m contributed to the operating improvement, which was about 19 per cent when adjusted for the one-off items.

Net profits for the first half climbed 49 per cent to DKr1.31bn, with earnings per share up to DKr17.61 from DKr11.81. Turnover rose 10 per cent to DKr8.68bn, with sales of healthcare products ahead 12 per cent to DKr6.47bn, mainly because of better volume and product mix. Enzymes sales rose by 6 per cent to DKr2.18bn. **Hilary Barnes, Copenhagen**

FOOD INDUSTRY

Parmalat confirms dairy growth

Parmalat, the acquisitive Italian food and dairy products group, yesterday confirmed plans to expand its dairy activities but played down reports of a deal with the dairy products division of Cirio, another fast growing Italian foods company. It was responding to a report in Il Giornale, the Milan daily, that it was in advanced negotiations to buy for L700bn ($398m) the dairy products activities of Cirio. However, it acknowledged there had been talks.

Parmalat last week announced plans for a L1,000bn capital increase to fund acquisitions. The company has made seven acquisitions this year.

Cirio, controlled by Sergio Cragnotti, recently took over the South African Del Monte food group. The Italian group has heavy debts and is understood to want to focus on its canned food and fruit juice businesses. **Paul Betts, Milan**

TEXTILES

Lenzing in Lyocell warning

Lenzing, Europe's biggest viscose fibre producer, has warned that sales of Lyocell, its new fabric, are running well below expectations and it now expects to sell half its planned production of 10,000 tonnes. The Austrian group began production of Lyocell, the first new man-made fibre in more than 30 years, in July 1997, but competition from cheaper Asian-produced fibres has undermined demand and stocks have been rising rapidly. Lenzing its reducing its spending on research and marketing in an attempt to reduce Lyocell's expected losses of Sch250m ($20m) this year. **William Hall, Zurich**

JAPANESE BANKING FEARS OF CREDIT SQUEEZE PROMPT MOODY'S TO CUT RATING

LTCB debt downgraded to junk bond status

By Gillian Tett in Tokyo

Long-Term Credit Bank, the troubled Japanese group, received a blow yesterday from Moody's, the US credit rating agency, which downgraded its senior debt to junk bond status.

Moody's said it had decided to downgrade the debt from Baa3 to Ba1 – the level known as "speculative" – because of concern that LTCB faced a credit squeeze.

The move could undermine LTCB's ability to raise new funds in the markets by issuing debentures. Traders yesterday indicated that the bank was now expected to raise no more than Y10bn ($68m) from five-year debentures this month – one-tenth of the normal levels.

The potential credit squeeze at LTCB could have broader implications for the financial markets, as the future of the bank is regarded as a critical test for the Japanese government's policy towards the embattled banking sector.

LTCB announced in June that it was hoping to merge with Sumitomo Trust. However, Sumitomo Trust has insisted that it will only proceed with the merger after an audit of LTCB has been completed and will only acquire LTCB's healthy assets.

The Financial Supervisory Agency, Japan's banking regulator, is due to complete an audit of LTCB in the coming days.

There are also growing signs that LTCB's alliance with UBS, the Swiss bank, is unravelling. This pact involves three joint ventures – in investment banking, asset management and private banking – and a 1 per cent cross-shareholding.

UBS has recently decided to remove the LTCB name from the brand name for the joint ventures and is considering buying out LTCB's stake in the investment banking and asset management ventures.

It emerged earlier this week that LTCB had abandoned plans to inject any capital into its private banking joint venture.

The Swiss group said that "UBS and LTCB agreed prior to the launch of the private banking business that it was in the best interests of the business and their clients that the private bank commence as a UBS business."

It added: "However, we will work together in the spirit of co-operation ... We remain committed to the Japanese market, our clients and our staff."

LTCB's share price fell to a record low of Y37 earlier this week – or Y13 below par value – before recovering to close at Y41 yesterday.

CBA rises 4% despite increased competition

By Gwen Robinson in Sydney

Commonwealth Bank of Australia, one of the country's top four banks, yesterday posted a slight increase in annual net profit and predicted modest growth in the current year amid growing competition and the continuing impact of Asian economic turmoil.

Net profit for the year ended in June rose 4 per cent to A$1.25bn (US$741m) before abnormal charges, in line with most analysts' expectations. Restructuring costs, including more than 2,000 job cuts, resulted in an abnormal charge of $161m after tax, limiting net profit to $1.09bn, or an annual increase of just 1 per cent.

The bank's charge for bad and doubtful debts surged from $98m the previous year to $233m, reflecting CBA's efforts to reduce Asian exposure, particularly in Indonesia. Its aggregate exposure to the Asia region had been cut by a further 12 per cent in the six months to June and now represented only 4 per cent of total credit risk, said David Murray, managing director.

CBA's Indonesian banking joint venture, Bank BII Commonwealth, had traded profitably, with increased deposits in the year, in spite of the country's political and social upheaval. But Mr Murray said CBA was "very cautious" about further investments in Asia because of a "significant loss of value in many existing financial institutions".

Lending volumes rose 10 per cent to A$92.57bn in the year, while net interest income was steady at A$3.39bn because of the decline in CBA's group interest margin to 333 basis points from 353 basis points the previous year.

Other operating income, including fees and transaction charges, rose 24 per cent to A$1.88bn. CBA's cost-to-income ratio fell from 60.2 per cent to 58.5 per cent, although operating expenses rose 4 per cent to A$3.09bn. The final dividend was increased by 1 cent to 58 cents a share.

ASB Bank of New Zealand, 75 per cent-owned by CBA, posted a record 17 per cent increase in net profit to NZ$108m (US$54m), contributing about 6.7 per cent of total profits at CBA, up from 5.8 per cent a year earlier.

Mr Murray said the outlook for CBA in the current business year was "challenging". Continuing fall-out from the Asian crisis would slow the economy and damp demand for credit.

He predicted non-interest income, which improved in the past year while interest income remained flat, would continue to grow to produce a slight increase in net profit.

Mr Murray confirmed that CBA was considering spinning off or floating many of its property assets, currently estimated at A$1.2bn, but could not provide details.

As part of the bank's continuing shift away from expanding property holdings, Mr Murray said CBA was planning to lease more property assets, including branch sites.

This year CBA is set to launch its venture with Woolworths, the national supermarket chain, to establish a supermarket banking network. Some analysts have questioned the potential costs of the venture, but Mr Murray predicted the business would develop quickly.

On the Australian Stock Exchange, CBA shares rose 5.1 cents to $19.60.

Mediobanca moves to revive bank merger talks

By Paul Betts in Milan

Mediobanca, the Milan investment bank, has revived a campaign to help force a merger between Banca Commerciale Italiana and Banca di Roma.

The latest move is the sale by HdP, the industrial holding company closely linked with Mediobanca, of its 1 per cent stake in Credito Italiano while boosting its holding in BCI, Credito's main Milan rival, by 1 percentage point to 2.2 per cent.

HdP claims the switch was a purely financial move, but the transaction has been widely seen as part of a manoeuvre by Mediobanca and its allies to strengthen their hand in an eventual revival of the BCI-Banca di Roma merger.

Merger talks, strongly backed by the central bank, collapsed in June, partly because the conversion ratio was at the time heavily weighted in favour of Banca di Roma. Luigi Fausti, BCI chairman, has also been opposed to the merger, as have Paribas and Commerzbank, BCI's two main foreign shareholders.

However, Mediobanca has been seeking to revive merger talks between the two, which each own 8 per cent of the Milan bank. A tie-up would lead to further consolidation in Italian banking and help secure Mediobanca's own core shareholding structure.

Other Mediobanca allies, such as insurers SAI and Fondiaria, have built up their BCI stakes recently, while Assicurazioni Generali, in which Mediobanca holds a significant stake, is awaiting central bank approval to double its holding to 10 per cent.

These acquisitions have in part explained the rise in BCI's share price in recent weeks, pushing the conversion ratio between BCI and Banca di Roma closer to levels that might be more acceptable to BCI management. At current prices, the merger ratio would be 3.4 Banca di Roma shares for one BCI share.

Mediobanca has seen its influence wane, with several important former allies going their own way. Credito Italiano, for example, opted for a merger with a group of north Italian regional banks to form the new Unicredito group.

BCI has also shown stirrings of independence, saying it is keen to expand in northern Italy rather than be forced into an alliance with Banca di Roma.

COMPANIES & FINANCE: THE FUTURE FOR VIRGIN

Branson may feel the heat if cash flow sun sets on his empire

Jonathan Ford asks whether one of the UK's best known entrepreneurs may have overcommitted himself and whether the options for his diverse Virgin businesses from airlines and record companies to cosmetics may be limited if the predicted economic downturn begins to bite

Ten years ago, Richard Branson almost sank his business empire by launching an ill-fated management buy-out of Virgin Group, the quoted holding company that owned his record business.

When the UK economy subsequently fell into recession, the group struggled to service the resulting debts and Mr Branson was forced to sell large chunks of his business just to survive. In 1992, he even sacrificed the crown jewel, the record company. After the deal was signed selling it to Thorn-EMI for £560m, Mr Branson cried.

A decade on, Mr Branson is again heavily extended at what could be the peak of the business cycle. Having trimmed the group back through forced disposals in the early 1990s, he has been on an expansionary spree.

In the past five years, Virgin has invested in a bewildering array of businesses, many of them costly start-ups. These range from soft drinks to wedding dresses and cosmetics.

At the age of 48, Mr Branson controls a largely private business empire that is thought to be worth in excess of £3bn. Its services are bought by more than 100m customers each year, while its brand is one of the best-known in the UK and recognised throughout the world. It is a formidable achievement.

Yet Mr Branson and his group are not without critics. *He has been criticised* for applying the Virgin name indiscriminately to too many businesses, leaving the brand – arguably his most valuable asset – vulnerable should one of them fail.

An equally pertinent criticism is that Mr Branson might once more have chanced his arm at the wrong moment in the economic cycle. Last time, he was caught out gearing up into a downturn. Could the same happen again?

It is impossible for an outsider to assess the full extent of Mr Branson's resources, or the profitability of his empire. Some information is shrouded behind the web of secretive offshore trusts and companies through which he controls the group.

But by examining the published accounts of Mr Branson's main operating companies, most of which are *registered in the UK*, the Financial Times has sought to assess whether his empire pays its way.

This analysis, it should be said, is far from perfect. Much of the financial information available on the group is out of date, and few Virgin companies share the same year ends. Nonetheless, it provides a picture of how Virgin's finances have changed over the past three years.

Virgin claims that this approach is wrong because the groups businesses are individually ring-fenced and many have strong outside backers. Mr Branson also believes that profitability is an unfair measure by which to judge Virgin's performance. As a largely unquoted group, it is not under pressure from outside shareholders to declare increased profits each year. Indeed, he says the group encourages subsidiaries to invest most of the cash they generate.

Mr Branson's preferred yardstick is cash flow. He recently gave an upbeat account of the group's financial condition, in which he claimed that Virgin companies collectively generate £150m of cash a year. "We are in the strongest position we have ever been in," he said.

Mr Branson is right: cash is Virgin's lifeblood. This was amply demonstrated in the last recession when his passion for debt-funded expansion outstripped the group's dwindling cash flows, bringing it close to collapse.

An analysis of the cash flows of the main Virgin companies over their last three accounting periods shows that while at the operating level, they are generating substantial cash flows, after capital spending and tax the group is absorbing, rather than generating, cash.

It is impossible for an outsider to assess the full extent of Mr Branson's resources, or his *empire's profitability*

In the last three years, Mr Branson has been on a massive investment spree. Not only has Virgin poured money into start-up ventures that have yet to make a profit, but the group has also spent heavily on more established businesses, such as its record shops and the UK cinema chain it bought from MGM in 1995.

Many of the investments *Mr Branson has made are* long term and will take years to earn a return. V2, the record company he founded two years ago, will have devoured nearly £100m by the time it is expected to break even early next century. Nor is the pace of investment slackening. Virgin is continuing to launch new projects, such as Virgin Active, a chain of health clubs on which it plans to spend £50m. The group is also in discussions about launching a mobile phone venture in the UK.

At present, three Virgin businesses throw off surplus cash. These are Virgin Atlantic and Virgin Express, the two airlines, and Virgin Rail, which he set up last year to take over two UK train franchises.

However, there are question marks over the sustainability of these cash flows. Although Virgin Atlantic continues to generate strong profits – the group says its latest, as yet unreleased, results show profits grew by more than 20 per cent last year - the airline industry cycle is thought to be turning after four strong years.

Virgin Express, which lost money in the first quarter of this year, is still struggling to establish itself in the European short-haul market. Virgin Rail only generates cash because it receives substantial government subsidies, which will decline.

Arguably then, Virgin's expansion could lead Mr Branson into the same trap he fell into last time. In borrowing heavily to buy Virgin Group back from the stock market in 1988, he effectively mortgaged its future cash flows on the assumption they would be adequate to service his enlarged debts. In the event, because of the recession, they were not. This time, Mr Branson's gamble is somewhat different. He is investing in businesses that might, or might not, produce an adequate return.

There is also the chance that a recession could undo his plans. In a downturn, the start-up ventures could take longer to turn into profit, meaning more money would be required to fund their larger-than-expected losses. These cash demands would come at a time when Mr *Branson's mature, cash generative* businesses were perhaps finding it harder to make money.

In recent years, Mr Branson has financed the expansion of his empire by tapping outside sources of capital to fund Virgin's ventures. This has allowed the group to leverage its financial resources, thus creating a wider portfolio of investments than would otherwise have been possible. It has also arguably limited Mr Branson's financial exposure to each venture.

Of the 13 businesses constituting the bulk of the group, only three are wholly-owned by Mr Branson and his interests. The remainder are either joint ventures, or have outside shareholders.

In the case of start-ups, sufficient capital appears to have been provided by Mr Branson and outsiders to see them through to the point when it is envisaged they will break even.

Mr Branson argues that this approach protects Virgin from the consequences should one or more of its investments go wrong. "Every business is financed on a stand alone basis without recourse to the group, and we have some very strong partners behind us."

Virgin's backers include corporate investors, such as Stagecoach, the diversified transport group, which two months ago paid £158m for a 49 per cent stake in Virgin Rail. AMP, the Australian insurer, is another, having backed Mr Branson's move into financial services. It owns 50 per cent of Virgin Direct.

The group has also tapped the venture capital market *for funds. Prior to the Stage*coach deal, Virgin Rail was part-owned by a consortium of four venture capital investors. Virgin Entertainment, which holds the group's cinema and retail interests, is 27 per cent owned by two US venture capital groups.

Mr Branson has even started thinking seriously about the stock market again – something of a volte face given his past strictures about the short-termism of institutional investors.

He holds substantial stakes in two quoted companies: Victory Corporation, which owns his interests in Virgin-branded cosmetics and clothing, and Virgin Express, the low cost airline. He has also publicly mooted the possibility of listing Virgin Atlantic and Virgin Entertainment.

Partners have come forward partly because Mr *Branson has something* valuable to sell: Virgin's brand name. Indeed, such is the perceived prestige of the brand that Mr Branson has sometimes been able to persuade partners to put up most of the cash for ventures, limiting his own contribution to little more than the right to use the name.

In the case of Virgin Direct, Mr Branson invested just £14.5m for his 50 per cent stake, while AMP agreed to contribute up to £450m in equity and loans for its share.

According to Rowan *Gormley, chief executive of* Virgin Direct, the insurer was willing to do this because Virgin Direct offered the chance to enter a new market – direct selling of financial services – with a successful brand name behind it.

This reflects a broader truth about Mr Branson's empire. As Virgin's interests have become more diverse, the brand has assumed greater importance, both as the unifying link between group companies and their selling proposition to outside investors. Many Virgin executives even refer to the group as a branded venture capital fund.

However, this dual reliance on the brand and outside money introduces tensions. As Mr Branson has mutualised his affairs with those of outside partners and shareholders, the world is beginning to take a keener interest in the financial performance of his companies.

Mr Branson's return to the stock market – where transparency and results are all – has met with a cool reception. Victory Corporation, floated at 58p a share in September 1996, now stands at just 21p. Shares in Virgin Express have also fallen since it was listed on the Brussels stock exchange and Nasdaq last December. Analysis of the latest accounts from his companies suggests Mr Branson has a poor *record of creating share*holder value. The group's record shows it has destroyed, rather than created, value over the past two years.

Mr Branson argues *this is* misleading because many of his companies have an uncounted strategic value – the price that rivals or would-be partners are prepared to pay for them. He cites Virgin Records, which had profits of about £30m when it was sold to Thorn-EMI for £560m. "EMI were prepared to pay the price because by merging, they could increase those profits to £50m and it also gave them the chance to knock Virgin out of the market."

Another tension potentially introduced by Mr Branson's reliance on outside capital is that he may fall out with partners over the strategic direction of companies in which they are joint investors. Earlier this year, Mr Branson bought Cott Corporation of Canada out of its 50 per cent stake in his soft drinks venture, Virgin Cola, after they fell out over Mr Branson's costly strategy of seeking to establish the brand as a competitor to Pepsi and Coca-Cola in the UK market.

From a small pre-tax profit in 1996, Virgin Cola had fallen into heavy loss - thought to have been as much as £5m last year. Mr Branson had to inject £10m to keep Virgin Cola going. *He has since launched the* brand in the US, although this looks like an act of bravado rather than one driven by commercial logic.

Virgin Cola's problems *highlight* two weaknesses in Mr Branson's brand extension strategy. First, his need for outside investors may lead him to get involved with partners, such as Cott, whose commitment to a project does not match his own.

It also illustrates the difficulty Mr Branson has in cutting his losses when high profile investments fail to deliver. Although it probably made financial sense to pull out of Virgin Cola, Mr Branson probably found this unattractive because he had thrown so much personal prestige behind the product. He could not afford to allow an unsuccessful soft drink to taint the Virgin brand with the stigma of failure.

Right now, Mr Branson needs the Virgin name to retain its allure as much as he ever did. He is obliged regularly to hunt for new investors, whether to back start-up ventures, refinance departing backers, or even free up his own capital for use elsewhere in the group.

This reflects the idiosyncratic strategy Mr Branson has adopted to expand Virgin. His ad hoc deals with venture capitalists and joint venture partners regularly need refinancing.

The recent partial sale of Virgin Rail, for instance, was orchestrated not for strategic reasons, but because Mr Branson decided to find an exit for the venture capital investors that had backed the company. *Had he not done so, his* investment in Virgin Rail would have been substantially diluted.

Last month, Virgin Entertainment paid £145m for W.H. Smith's 75 per cent stake in Virgin Our Price, the music retailer, to take full control of the business for the first time since 1991.

This, too, was not an entirely voluntary move. Had Virgin Entertainment not done so, W.H. Smith, which had decided to withdraw from specialist music retailing, could have bought its 25 per cent stake next year for a price set by formula and sold Virgin Our Price to a third party, which would have had the right to use the Virgin name for 22 years. Mr Branson's reluctance to lose control of Virgin companies meant he was not prepared to let this happen.

Name that opens the deal doors

An assortment of organisations and people has been enthusiastic to back ventures because of the lustre of the brand

Richard Branson has adopted an eclectic approach in recent years to finding outside investors to back Virgin ventures.

In some cases, they have been drawn from the ranks of individuals and companies that have approached the group with business ideas. In others, Virgin has sought out partners or financial backers.

In this, it has been helped by Mr Branson's high profile and the perceived prestige of the Virgin brand. "We have no problem finding partners," said Stephen Murphy, finance director.

Perhaps the most colourful of Virgin's many backers is Rory McCarthy, a close friend and ballooning partner of Mr Branson, who set up Victory Corporation in 1996 to develop Virgin-branded cosmetics and clothing. He has since sold Mr Branson a 40 per cent stake in his company, McCarthy Corporation, which is listed on the Alberta stock exchange in Canada.

A former stockbroker based in east Asia in the late *1980s, Mr McCarthy* set himself up as a dealmaker in 1992 after raising money for Siam Trading, a small company with prawn farming interests in Thailand.

He has since built the business - renamed McCarthy a *few years ago* – by taking stakes in entrepreneurial ventures, including a laser gun adventure game and a Florida-based telecommunications company.

Mr McCarthy became involved with Virgin when his company took a stake in a balloon-making concern in which Mr Branson also invested. The two became friends.

"I adore Richard on a personal level," says Mr McCarthy. "His enthusiasm is so infectious, just being around him you are sure to have a good time."

However, their business relationship has been less smooth than their personal one. When Mr McCarthy originally brought Mr Branson the idea for Victory, Mr Branson put up just £2,000 for substantial minority stakes in two joint venture companies that would develop Virgin-branded cos*metics and clothing. Mr* McCarthy then floated Victory as a start-up, raising £45m from outside shareholders to develop the business.

Victory has since been buffeted by reverses and the share price has slumped. This year, concerned by the low price, Mr Branson injected Virgin's minority stakes in the clothing and *cosmetics companies into* Victory together with £14.5m cash. The management of Victory has been reorganised and Mr McCarthy, formerly executive chairman, has been moved to a non-executive position.

Mr McCarthy also became involved in another Virgin venture when his company agreed to pay £45m for a 33.3 per cent stake in V2, the record company, last summer. Mr Branson agreed to allow McCarthy to pay for its stake in instalments, which would have allowed it to finance the purchase from a similar stream of payments it expected to receive from a subsidiary it had sold to a management buy-out.

Unfortunately, the management buy-out went bust just two months after McCarthy signed the deal, leaving it unable to pay for *its stake. McCarthy was* refinanced earlier this year, when Mr Branson injected £20m for a 40 per cent stake.

Mr Branson has *also* been adept at finding corporate *partners for ventures where* the Virgin brand name has been blended with the partner's business expertise. "We like deals with people who do not just provide money, but also teach us something about the business," he says.

Brian Souter: risk-taker in the Branson mould

For instance, Virgin Direct, the unit trust venture, has allowed AMP, the Australian insurance company, to "road test" the concept of directly selling financial services by telephone without putting its own name at risk. AMP provides the financial expertise, Virgin the marketing.

Royal Bank of Scotland has since become involved with Virgin in a telephone banking venture. As Mr Murphy pointed out: "These are prestigious institutions which have more than satisfied themselves about Virgin."

Mr Branson has been successful at *winning* over institutional investors, when their involvement in deals has been needed.

When V2 was established, Mr Branson's original idea was to finance the business by selling minority equity stakes to outside backers. However, after the McCarthy experience, Virgin decided to finance the business using high-yield debt.

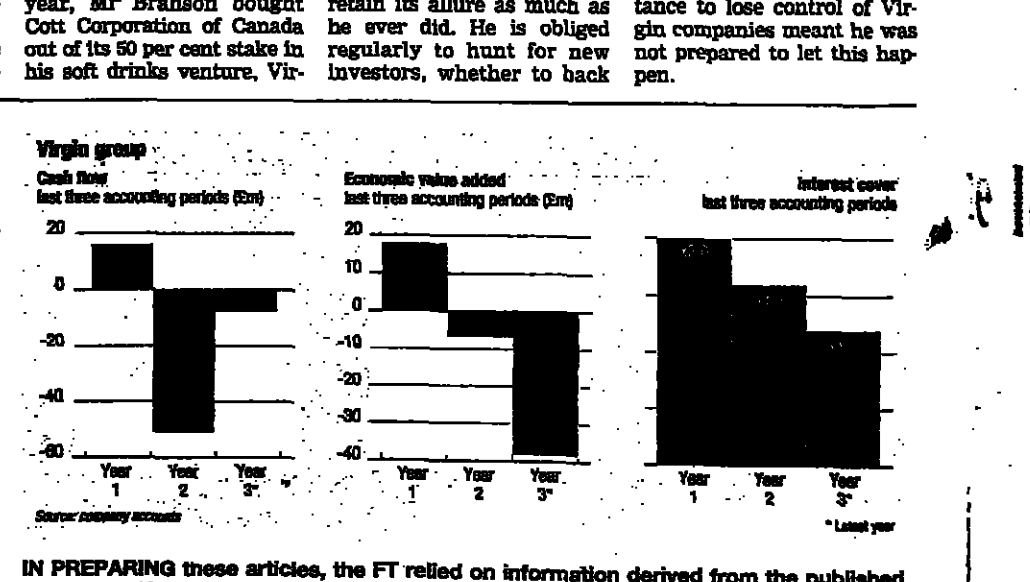
The *group's ability to raise* £74m from investors for a start-up record business demonstrated the high regard investors have for the brand name.

However, John Wotowicz at Morgan Stanley, the US investment bank which handled the issue for V2, also believes Mr Branson played a key part in raising the money.

"Clearly, institutions were interested because of the Richard Branson name, and also because he made his name in the music business," he said. "But I don't think it was purely Richard that sold the deal to investors. V2 put up a strong business case and has some great managers. If the Branson name had a significance, it was in getting them through the door in the first place."

Mr Branson's latest coup has been to bring in Stagecoach, the diversified transport group, as a partner for Virgin Rail, his train operating company. Brian Souter, chairman of Stagecoach, invested because Virgin Rail *owns a valuable property* – the UK's second busiest inter-city railway line between London and Glasgow.

Nonetheless, he acknowledges he was keen to work with Mr Branson, whose achievements he admires. "I think we are quite alike," he said. "We both enjoy taking risks and getting things done."



Source: company accounts

* Latest year

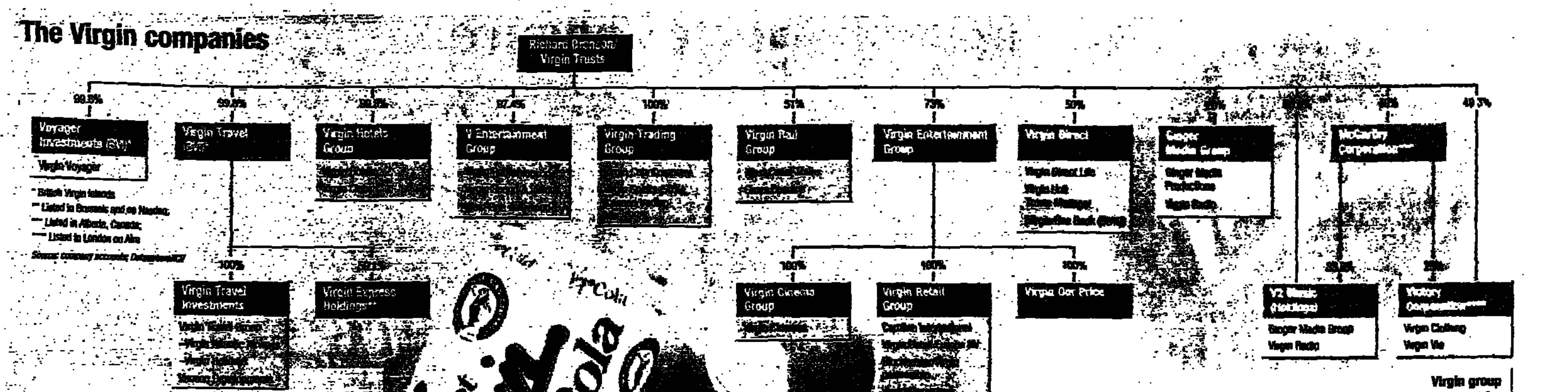
IN PREPARING these articles, the FT relied on information derived from the published accounts of Virgin companies filed with Companies House. Richard Branson owns, or holds interests in, about 200 companies in the UK. Many, however, are either tiny or dormant. We have confined our analysis to the 13 *companies in the table above*. Some have subsequently merged, such as Virgin Cinema, Virgin Retail and Virgin Our Price, which now constitute Virgin Entertainment Group. However, because they were not merged at the time they published their latest set of accounts, they have been shown separately. In each case, if available, we have reviewed the latest three accounts of each company and used the published data to draw up cash flows and economic value added calculations. The accounts *reviewed were filed between* September 1997 and July this year.

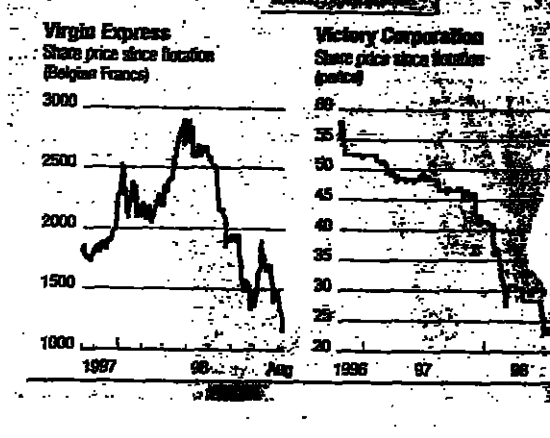
Economic value added measures the capacity of a business to generate shareholder value by comparing taxed profits (before interest) with weighted average cost of capital. We have taken Virgin's average cost of capital to be 10 per cent, and applied this uniformly across the group. For the purpose of calculating the capital employed in each company – the figure to which the cost *of capital is applied* – we have summed shareholders' funds and debt, adding back provisions and deducting cash balances.

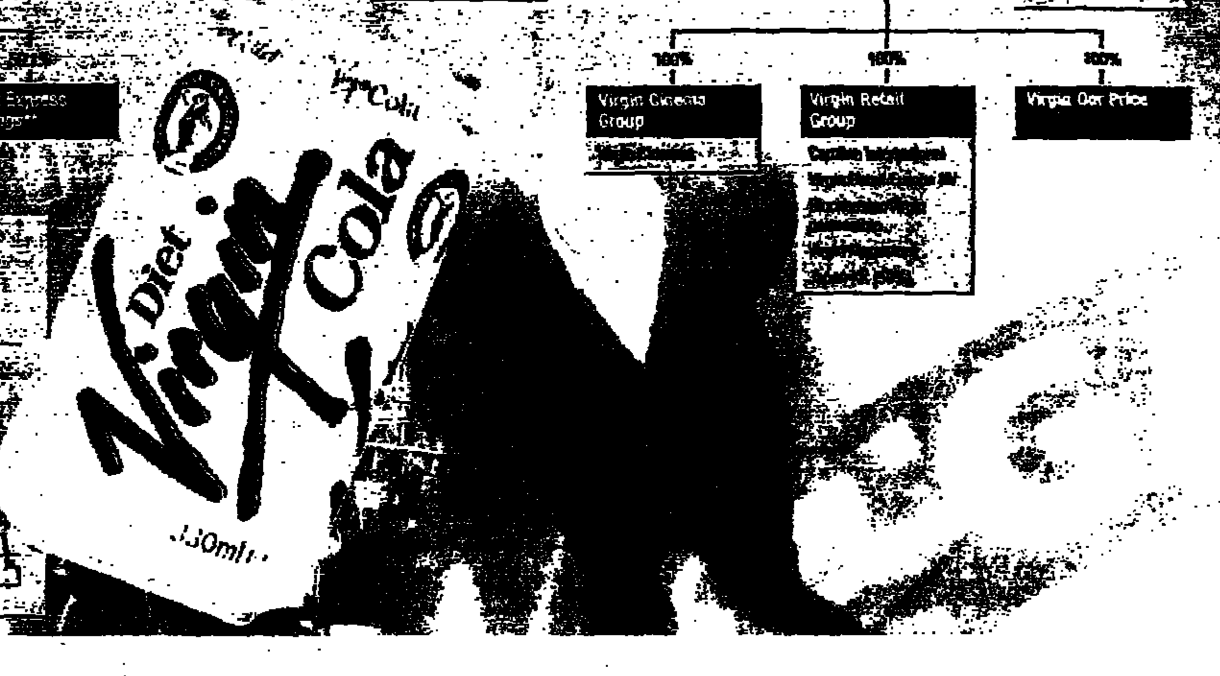
In compiling cash flows, we have taken as the relevant figure for each company the net cash after interest, capital expenditure and other investment activities. This *reflects* the cost of investments made and of servicing that expenditure. We have also used the data to calculate certain financial ratios for each company, including interest *cover. The resulting information has been consolidated* to produce group figures. This is in some ways a rough and ready measurement because the Virgin companies frequently change their financial year-ends and some of the information is out of date.

The latest available accounts for the companies analysed range from one that last reported on the period to July 31 1996 to those reporting for the year to December 31 1997. (We have included a list of latest accounting periods). We believe *consolidation* is justified as it gives a picture of the financial trends within the group: Virgin strongly disagrees, arguing that the individual companies in the group are financed on a stand-alone basis, making any consolidation irrelevant and misleading. In only one case have we made any material adjustment to the published figures. In Virgin Cinema Group, we stripped out the effect on cash flow of the acquisition of the MGM chain in 1995, and the disposal of cinema assets the following year. This was because these figures materially distorted the overall picture.

COMPANIES & FINANCE: THE FUTURE FOR VIRGIN







Virgin group
Latest accounting period (£m)

	Earnings before interest and tax	Net cashflow	Economic value added
Virgin Travel Group	81.5	57.9	32.5
Virgin Express	0.0	9.9	0.5
Virgin Retail UK (ex Our Price)	-7.9	0.5	-16.7
Virgin Our Price	12.8	-1.4	2.5
Virgin Cinema	8.9	-11.5	-6.3
Virgin Hotels	-2.7	1.3	-6.7
Virgin Rail	12.6	7.5	12.1
V Entertainment	-8.1	-0.7	-10.6
V2 Music	-15.4	-18.2	-19.8
Virgin Direct	-19.9	-24.8	-18.0
Virgin Cola	-0.3	0.0	-0.4
Virgin Spirits	-1.9	-1.8	-1.6
Victory Corporation	-8.2	-8.0	-10.3

Thanks to Mr Branson's dealmaking skills, these deals were seen as triumphs for Virgin. Mr Branson extracted a high price from Stagecoach for its stake in Virgin Rail, and bought Virgin Our Price for what was acknowledged a reasonable one. Nonetheless, both will need refinancing in future.

Mr Branson's agreement with Stagecoach requires him to float or sell Virgin Rail at some point early next century. Virgin Entertainment is still looking for long-term capital to back the buy-out of Virgin Our Price, although it expects to launch a high yield dollar bond in October. On top of that, Mr Branson's agreement with the venture capital investors backing Virgin Entertainment obliges him to seek a listing for the company in 2001.

Mr Branson's dealmaking skills have got the group out of trouble in the past. He originally sold W.H. Smith 50 per cent of Virgin Our Price seven years ago as one of a series of manoeuvres to stave off demands from anxious bankers after the group had become over-extended in the last recession.

But Virgin has become a great deal more complex since then, and increasingly dependent on other people's money. Investors in Virgin companies back the brand and Mr Branson's flair as much as anything else. Their faith, and willingness to put up money, could be shaken if a series of reverses appeared to dilute or destroy Virgin's brand capital.

Mr Branson argues that his success rate outshines that of conventional venture capitalists. But there have been failures, although these have been relatively small. In March, Mr Branson wound up his Virgin-branded vodka joint venture with the Scottish distillers, William Grant & Sons, citing poor demand for the product. Virgin Entertainment, which owns the group's retailing interests, plans to take a knife to its chronically unprofitable European megastores, closing unsuccessful outlets and pulling out of two countries – Spain and Norway.

More worryingly, one of Mr Branson's high profile start-up ventures, Victory Corporation, is also struggling. Victory, which was set up to market Virgin-branded cosmetics and clothing, has made embarrassingly ham-fisted progress since floating on the Alternative Investment Market in 1996.

Plans to open a chain of cosmetic stores have been put back after pilot outlets failed to achieve satisfactory sales. The clothing range is behind schedule after changing fashions forced Victory to redesign it. These delays have resulted in higher-than-expected losses, with break even now forecast a year later than hoped.

Virgin faces competition from seven groups chasing scarce sites available for development into multiplexes

Virgin says the lesson it learned from the Victory experience was not to float start-up companies. According to the group's finance director, Stephen Murphy: "Thrusting a start-up into the public arena on day one is not a good thing to do. Because of the public company perspective, we did not grasp control in the way we should have done."

There are also questions about the growth prospects for some of the other start-ups. Mr Branson has launched his new record company, V2, at an unpropitious time for the music industry. Global sales of CDs are slowing after a decade-long boom as consumers replaced their old vinyl record collections. The industry is also worried by the rise of new delivery systems, such as the internet, which could make redundant the marketing and distribution skills record companies provide to artists.

And while Virgin Direct's unit trust business has grown rapidly since its launch in 1995, going from nothing to about £1.5bn under management in less than three years, analysts fear that a major factor behind this growth was the company's decision to undercut the rest of the industry on price. Virgin's competitors have since responded and a fierce price war has broken out. Virgin admits the pace of new business has slowed at Virgin Direct, but said this is due to confusion about how the UK government's tax changes will affect the savings market.

Virgin claims it has only expanded into industries that are ripe for exploitation by the brand. The group also argues it can take on market leaders like Coca-Cola because Virgin's well-known brand name allows it to market new products at lower cost than others. In effect, its financial risk is smaller.

Nonetheless, there is concern that Mr Branson's confidence in the brand may have encouraged him to take the group into ever more crowded markets where Virgin's name may differentiate it less from the pack than he, or his investors, expect.

Victory's upmarket clothing range can expect to meet head-on competition from well-established US brands, such as Tommy Hilfiger and Ralph Lauren.

In the cinema business, Virgin faces competition from seven other groups that are chasing the scarce sites available for development into multiplex cinemas – the staple of Mr Branson's chain.

In the three years since Mr Branson entered the cinema business, rental costs for multiplexes have risen by more than 50 per cent as developers have bid up site values. Given such increases, it is hard to see Virgin's capital spending – more than £60m planned for this year and next – generating the returns that had once been expected.

Mr Branson has always been a risk taker. According to one observer who has done business with Virgin: "The way he sees it with things like Virgin Atlantic and Virgin Cola is that if he takes on the big boys and loses, he is still a hero for trying. And if he wins, he is a genius. So long as the losses are not too heavy, it is another way of advertising himself and the business."

The theory works so long as Mr Branson does not become over extended. Indeed, such is his reputation as a corporate giant slayer that the Virgin name would possibly suffer if he became averse to taking chances.

Today's Virgin is very different from the group that almost went under in the last recession. In 1991, Mr Branson's companies had gross debts of more than £400m, most of which were personally guaranteed by him, or subject to cross-guarantees within the group. This left Virgin highly vulnerable, ensuring that if bad debts occurred in one part of the group, they had the potential swiftly to infect the rest.

Nowadays, Mr Branson's interests are more conservatively structured. Each is separately financed, often with outside investors taking much of the risk. Lenders to Virgin companies have no recourse to Mr Branson's assets or those of any other part of the group.

"After the sale of Virgin Records, I took a conscious decision that I never wanted to be in a position where I have to sell a company again," said Mr Branson.

Virgin's strategy of using outside finance was designed to avoid the reliance on bank borrowings that almost unseated the group in the last recession. But as Virgin Atlantic has grown organically, and Virgin Entertainment by acquisition, both have financed expansion mainly through borrowed money.

Capitalising aircraft leases as debt, Virgin Travel, which owns Virgin Atlantic, had net borrowings of about £500m last year and a debt equity ratio of about 4:1. Although high gearing levels are not uncommon in the airline industry, BA's debt/equity ratio is by comparison about 145 per cent.

Virgin Atlantic is continuing to expand rapidly, increasing the size of the fleet by a quarter since the last balance sheet date. Virgin says the airline can easily finance its expansion out of cash flow, and investments can be postponed if the market slows.

Virgin Entertainment has borrowings of more than £300m following the £145m acquisition of Virgin Our Price, which was funded entirely by debt. Of this, £100m is a expensive bridging facility which must be repaid in the near future. The group hopes to refinance the company through a high yield bond issue in the autumn.

Over the past three years, adding back aircraft rental charges as interest payments, the group's interest cover has declined from about 2.0 times to 1.2 times. Virgin claims such figures are irrelevant because they ignore the ring fencing around the group's many companies. Nonetheless, they demonstrate how aggressively the group has leveraged its resources over the past three years.

It would be wrong to argue that Mr Branson has geared up in the way he did prior to the last recession. However, much will still depend on the performance of his mature, cash generative businesses if the economy sours.

The group's problem is that neither airlines nor retailers tend to perform reliably in a recession. The airline business, although glamorous, is not highly profitable, while the high level of fixed costs – to cover aircraft leases, maintenance and fuel – make it cyclical.

If Richard Branson takes on the big boys and loses, he is still a hero for trying. And if he wins, he is a genius

There is evidence that the airline cycle peaked in 1997, when Virgin Atlantic made pre-tax profits of £45.2m. Although traffic over the north Atlantic – where Virgin flies eight of its 12 routes – has remained strong since then, demand for its routes to Hong Kong and Tokyo have been hit by the region's financial crisis.

Airlines are moving aircraft from unprofitable Asian routes to the north Atlantic which still offers attractive returns. Capacity there could rise further if British Airways and American Airlines cement their planned alliance.

Virgin Entertainment, recently enlarged through the purchase of Virgin Our Price, is similarly uninspiring as a money machine. Of an estimated £850m of sales last year, £750m came from music retailing, mostly through the group's megastores in the UK and overseas. On this, the business made operating profits of about £17m, equivalent to a margin of just 2.2 per cent.

Analysts believe retail, like the record company, could be vulnerable to competition from electronic media. "Music retailers are vulnerable because their margins are very low, so it would not take much shift in trade towards the internet to devastate their profits," says George Wallace at Management Horizons Europe, a retail consultancy.

Virgin is examining the possibility of selling records online, but is unsure whether that could cannibalise sales at its record stores.

Mr Branson is characteristically upbeat: "If the Megastores started losing business to the internet, we could start putting some of our other products in the outlets, like Virgin clothing. That is one of the benefits of diversity."

A decade ago, when the economic skies started darkening for Virgin, Mr Branson had enough foresight to offload some of his assets before the market slipped away.

Earlier this year, Mr Branson revealed that he planned to list a number of Virgin companies. "We have made a decision, bearing in mind the way the group is growing, that having outside shareholders would help us develop new opportunities by allowing us to put more money behind them," he said. Mr Branson is now mulling whether to float Virgin Atlantic and Virgin Entertainment. He is not in the unenviable position he was in at the end of the last decade. But he has still taken risks. Virgin's aggressive expansion through start-up ventures may not bring the expected returns. And if relationships with some of the group's partners go sour, Mr Branson might face the difficult choice of whether to refinance the partner's interest in a poorly-performing business. In the case of bond financed companies, he might have to put up more equity or run the risk of losing the lot.

The strategic issue for Mr Branson is whether he should lay off some of the risk in his largest ventures now by floating them on the stock market. If he goes this autumn, economic and market conditions should still be in his favour. If he waits, the window may close for some time to come.

Listing Virgin Atlantic and Virgin Entertainment offers obvious advantages for the group. Not only would it introduce long term capital that could be used to reduce borrowings, but it would provide Mr Branson with liquid shareholdings in companies that generate nearly two thirds of the group's turnover.

However there is also a disadvantage. If he lists the two companies, Mr Branson would find himself again running what was in effect a quoted group, with all the irksome restrictions that would entail.

Which will he choose? Temperamentally, Mr Branson would probably prefer to stay private, implying that he would be list only if he had to. His battle, if and when Virgin Atlantic and Virgin Entertainment come to the market, will be to persuade investors that he is offering them a share in growing businesses.

The long haul from survivor to contender

Quality rather than quantity has helped Virgin Atlantic establish a market niche but now it will need both to keep its share

It is hard to believe now that when Virgin Atlantic started life 14 years ago, it was intended to be a low-cost "people carrier" across the north Atlantic, rather in the mould of Sir Freddie Laker's Skytrain service, which went bust in 1982.

Perhaps wisely, Richard Branson ultimately drew back from carrying hordes of sandwich-munching backpackers to the US at rock-bottom prices. Instead, he targeted the airline unashamedly at the business market, aiming to offer travellers a more luxurious service than rivals, rather than charging less.

Virgin Atlantic has been through tough times since its pioneering days. Caught out by the slump in air travel and the fuel price jump that followed Iraq's invasion of Kuwait in 1990, the airline spent the early years of the decade fighting for survival.

At the same time, it had to fend off a morally questionable commercial attack from British Airways, the UK's largest carrier, known as the "dirty tricks" campaign.

Establishing Virgin Atlantic as a contender in the long haul airline business has been one of Mr Branson's toughest challenges. Until the mid-1990s, the airline had a lacklustre financial record. In 1994, Mr Branson even considered selling it.

However, in the last three years, Virgin Atlantic has reaped the rewards of its founder's patience. Virgin Atlantic's Upper Class business cabin has become one of the best regarded brands in the industry. "Because of its strong name and excellent product, Virgin Atlantic does not have to compete on price with other carriers," said Andrew Light, airline analyst at Salomon Smith Barney.

Virgin Atlantic flies from London to eight cities in the US, including New York, Los Angeles and Boston. It also serves two Asian destinations – Hong Kong and Tokyo – as well as Johannesburg.

Athens, the sole European destination, was something of an afterthought. Services commenced several years ago, apparently to tie in with another of Mr Branson's projects, a holiday resort development in Greece. The route is not thought to be particularly profitable.

Virgin Atlantic's strategy has been to target premium long haul routes where it competes mainly with established flag carrier airlines. By avoiding price competition, it has been able to carve out a comfortable niche where fares are effectively set by its larger rivals.

The key to its success has been the strong position it has built on routes over the north Atlantic to the US, where it has made about two-thirds of its profits in recent years.

Since 1991, Virgin Atlantic has been one of only four airlines allowed to fly to the US from London's Heathrow airport. The others are British Airways and two US carriers, American Airlines and United.

Membership of this club has been profitable because business travellers have been prepared to pay high fares for access to Europe's busiest airport. Fares between Heathrow and the US are up to 25 per higher than similar routes from other UK and European airports.

This has paid dividends in terms of profitability. Last year, Virgin Atlantic's operating margins touched 19 per cent, against 17.4 per cent for BA. But it has also left Virgin Atlantic heavily exposed to one main air route – a strategy that could backfire if US-UK passenger traffic were to fall off or new capacity were to come on to the route, driving down prices.

It is the latter eventuality that concerns Virgin Atlantic, should BA and American Airlines proceed with their planned alliance. Capacity on the north Atlantic is already rising as operators switch aircraft from increasingly unprofitable Asian routes. If BA and American complete their tie-up, Salomon Smith Barney estimates that the number of available seats could be increased by a further 15 per cent.

To head off this threat, Virgin Atlantic is increasing its non-US route network. It recently started services to Johannesburg, and is launching flights to the Caribbean this autumn. It also hopes to add Cape Town, Moscow and Shanghai to its list of destinations.

Virgin Atlantic is also seeking to protect its share of the north Atlantic market, possibly through a merger or alliance with a European regional airline. This would give it access to passengers from European destinations who could be fed on to its transatlantic flights. Mr Branson is understood to have approached British Midland, the short-haul UK carrier serving mainly European destinations, about such an alliance in the past.

Virgin Atlantic has also sought to block potential competitors. This year, British Midland applied to the Civil Aviation Authority, the UK airline regulator, for a licence to fly the north Atlantic route. Under CAA rules, existing operators on the route were entitled to object. Virgin Atlantic did so, while BA did not.

Virgin Atlantic said this was a tactical manoeuvre and it would reverse its position if a "fair" open skies treaty were concluded between the UK and the US. Nonetheless, for an arch advocate of free markets like Mr Branson, it is uncomfortable to be cast in the role of the oligopolist protecting the status quo.

Virgin Atlantic's expansion has obliged it to invest heavily in aircraft. In the past 18 months, it has increased the size of its fleet from 14 to 20 aircraft. It expects to acquire another 10 over the next 18 months.

This level of capacity increase far outstrips the anticipated rate of market growth on Virgin Atlantic's existing routes, presupposing that the airline will continue with its aggressive route-building programme.

Some of the aircraft will come from Asian airlines that have surplus capacity following the region's economic downturn. Virgin Atlantic recently agreed to buy two Boeing 747s from Cathay Pacific and another three from Air New Zealand. The first is due to be delivered this autumn.

Virgin Atlantic has also been forced to invest heavily by other airlines, which have been upgrading their fleets. "Virgin's selling point has been the quality of its service – the wider seats and the videos in seatbacks," said Mr Light. "Other airlines are now seeking to match that, so the quality gap has narrowed."

This year, Mr Branson said he was considering listing Virgin Atlantic on the stock market. The main reason given was to release equity tied up in the airline for investment in new projects.

Virgin Atlantic has said it does not have to list the company to finance its investment requirements because these can be serviced from cash flow. "If circumstances changed for the airline, we would simply slow down our rate of expansion," said Stephen Murphy, Virgin's finance director.


Buzzing business: a Virgin scooter

Analysts are divided about the outlook for long haul airlines. During the boom of recent years, airlines padded their profit margins by pushing up business class fares aggressively. However, recent figures from BA suggest that passengers are now resisting this, and the rate of fare increases is slowing sharply.

Partly this reflects the strong pound, which allows European airlines flying through London to offer lower fares than would be attractive for UK airlines. But it also reflects the additional capacity and more aggressive competition from the new airline alliances that dominate the industry, such as Star, which is headed by Lufthansa of Germany and United of the US.

Virgin Atlantic claims that fare levels are not a worry in the short term, mainly because its costs are low compared to many of its rivals. This is because the airline has contracted out most of the services it needs, particularly expensive aircraft maintenance.

However, the issue of alliances poses a more difficult problem. At present, Virgin Atlantic has one sizeable tie-up with another airline: a 10-year deal with Continental under which the US airline buys seats on its transatlantic flights. This provides useful cash flow but does not solve the longer term problem of how Virgin Atlantic, with its limited route network, can compete with mega-partnerships such as the Star Alliance and BA-American.

These alliances are aimed unashamedly at serving business passengers – Virgin's lifeblood. Virgin Atlantic argues it is not concerned by changes to the structure of the airline industry, mainly because it is small and nimble enough to carve out a comfortable living without needing to take on the giants.

Indeed, the airline believes there are limits to its size beyond which a fundamental rethink of strategy would be required, mainly because it would have to start building a costly infrastructure.

At the moment, with those advantages intact, Virgin Atlantic claims not to be suffering the same pain as BA. Its yields – revenues per passenger – are still rising unlike those of some its rivals, and the airline said its latest profits, due to be released next month, would show an increase of more than 20 per cent. If Mr Branson pushes the button on a stock market listing, analysts will doubtless be poring over those figures this autumn.

Airtours to guard against over exposure

By Scheherazade Daneshkhu, Leisure Industries Correspondent

Airtours yesterday sounded a note of caution in a buoyant UK summer holiday market by saying it would reduce the number of summer 1999 holidays by up to 5 per cent.

The group said it would also be cutting more capacity in its Scandinavian division which had fallen into losses over the quarter.

Airtours increased pre-tax profits from £24.1m ($39.8m) to £24.6m in the three months to June 30 on sales up 28 per cent to £735m (£574.4m). Airtours' UK operating profits increased by 26 per cent to £23.6m, of which £3.1m came from acquisitions. Its Costa Cruises subsidiary also benefited from increased demand.

However, the group's troubles in Scandinavia were reflected in a £2.4m loss in the European division against profits of £8.8m last time, mainly due to operating difficulties with its Premiair charter airline and excess market capacity.

Airtours, which has a 50 per cent share of the Scandinavian package holiday market, had reduced capacity by 8 per cent.

Bruce Jones, leisure analyst at Merrill Lynch said: "Mistakes in Scandinavia will be offset by Costa cruises and a UK bonanza in the fourth quarter."

David Crossland, chairman of the UK's second largest package holiday company, said the industry should resist the temptation to increase supply for a third consecutive year. "We've had two years of good growth but there are signs of consumer confidence coming off. We are looking at what we sold in 98 and reducing it by up to 5 per cent for summer 99," he said.

Airtours said summer 1998 holiday sales were currently 8 per cent higher than last year, partly due to the strong pound and bad weather in June and July which had led to strong last minute demand for overseas holidays.

The package holiday market has grown since a disastrous summer 1995 when oversupply led to heavy discounting. After capacity cuts in 1996, the industry grew by 10 per cent in 1997 and by 8 per cent this year.

Airtours shares closed 7½p higher at 395p. Analysts maintained full-year forecasts of £139m (£120m) and earnings per share of 22.4p.

British Land buys interest in Selfridges

By Norma Cohen and Peggy Hollinger

British Land, the UK's second largest property company, said yesterday it had acquired a 3.146 per cent stake in Selfridges, the Oxford Street-based retailer recently demerged from Sears.

Selfridges' shares closed 17p higher at 221½p while British Land shares rose 6p to 566p.

Analysts speculated that British Land could be hoping to flush out a bidder for Selfridges, or hoping for a seat at the table if the company is approached about a sale of its property assets.

Selfridges' chief asset is a 540,000 sq ft site in Oxford Street where smaller shops are paying as much as £500 ($825) per square foot for rental space. Although department stores such as Selfridges typically pay rents which are much lower than that, the site has long been viewed as under-used and prime for redevelopment.

Selfridges' assets include the store, a 294-room hotel, an office block and a multi-storey car park. In its listing document, Selfridges said it believed it could extract a further 200,000 sq ft of selling space at its Oxford Street site, subject to receipt of financing and planning consents.

John Weston Smith, British Land's finance director, said yesterday the stake was simply "an investment". He declined to be drawn on whether it has any intentions of increasing the stake, or whether it is interested in carrying out property transactions with Selfridges. "We never comment on that," he said. "We will take it as it comes."

Selfridges refused to comment on the British Land stake. However it is understood the group has not had any bid approaches since it was demerged from Sears in July.

At last night's closing price, Selfridges' market capitalisation was £338.3m, a discountto net assets of £368.3m. Property developers said the redeveloped assets could be worth more than £400m at current West End rental rates.

British Land has led the industry in establishing joint ventures with retailers to purchase their real estate assets and lease them back to their original owners. This allows retailers, who typically have little property development expertise, to obtain cash for their real estate assets while sharing in the gains from redevelopment.

Street value: questions are being raised about the value of Selfridge's Oxford Street sites

Fifth reshuffle for Laura Ashley

By Peggy Hollinger

Laura Ashley, the high street retailer whose English country image fell foul of 1990's fashion, has announced its fifth management reshuffle in seven years.

David Hoare, the company doctor drafted in last September to take over from Ann Iverson, the chief executive under whom losses spiralled, is to be replaced as chief executive by his deputy, Victoria Egan.

Richard Pennycook, finance director, is also quitting the business as part of a wider reorganisation which will involve a 20 per cent reduction in 700 head office jobs. He will not be replaced.

Laura Ashley said the job cuts would result in annual savings of £3m.

The company insisted the management changes were planned as part of the second phase of the group's recovery strategy, and that instead of a company doctor it needed someone in the retail business.

Mr Hoare is expected to return to his finnical investment vehicle, Talisman, with a £200,000 payment - equivalent to one year's salary. Mr Pennycook, who joined in March, is expected to leave with substantially less than his year's salary of £160,00.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Airtours	9 mths to June 30	1,773	(1,393)	1.4	(11.4)	0.05L†	(1.58)	-	-	-	-	6.666*
BICC	6 mths to June 30★	2,066	(2,220)	35♠	(55)	2	(4.8)	4	Jan 4	4	-	8
BSkyB	Yr to June 30	1,434	(1,249)	270.9	(313.7)	14.5	(16.8)	3.25	Nov 4	3.25	6	6
CGU	6 mths to June 30★	8,070□	(7,567□)	466♠#	(928#)	20.8	(49.9)	13.25‡	Nov 17	12.25‡	-	32.5‡
Games Workshop	Yr to May 31	64.8	(58.4)	11.5	(11.1)	24.1	(22.6)	5.7	Oct 30	5.8	9	8.4
Hemingway Props	6 mths to June 30	10.3■	(10.6■)	1.58	(5.4)	0.73	(1.9)	0.2	Nov 24	0.18	-	0.43
Leslie Wise	6 mths to May 31	33.1	(34.6)	0.102L♠	(1.07)	0.2L	(1.94)	0.5	Oct 1	1	-	1.5
Morgan Sindall	6 mths to June 30	195.9	(161.9)	5.05	(3.28)	11.56	(7.12)	2.05	Oct 1	1.67	-	5.25
Sea Containers $	6 mths to June 30	588.7	(529.8)	19.4	(13.4)	1.26†	(0.67)	-	-	-	-	-
Shire Pharms	6 mths to June 30	40.1	(13.2)	5.37	(0.041L)	2.4†	(0.1L)	-	-	-	-	-
Telemetrix	6 mths to June 30	47.5	(61.5)	10.85L♠	(2.65)	8.4L	(2.1)	-	-	-	-	1.6
Treats	6 mths to June 28✣	24.5	(25.3)	1.25♠	(2.53)	4.7	(9.2)	-☆	-	1.5	-	2
VDC	Yr to May 31	88.7	(77.2)	1.75	(1.67)	11.63	(10.75)	4.125	Oct 9	3.825	5.5	5.2
Westminster Health	Yr to May 31★	145.1	(110.5)	13.6♠	(11.8♠)	15	(17)	4.15	Oct 2	4	7	6.6

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Life Offices	6 mths to June 30	114.95	(103.59)	0.04L	(0.234)	0.17L	(1.05)	-	-	-	-	-
Thompson Clive	6 mths to June 30	528.5	(428.1)	0.262	(0.306)	1.9	(2.2)	-	-	-	-	3.8

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. *After adjustment for scrip issue. ★Comparatives restated. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. □Total premium income. #Includes realised investment gains. ‡Foreign income dividend. ■Gross rental income. $US currency. ✣Comparatives pro forma. ☆Interim and final dividends to be merged and announced in December.

Stormy start for CGU union

By Jim Kelly

CGU, the new insurance giant, saw its inaugural interim results blown off course as operating profits tumbled to £280m ($462m) from £503m due to severe weather claims and competition in general insurance.

Weather claims were £233m, £129m higher than last year, because of a string of natural disasters such as the Ontario ice storm and flooding in the UK. Operating earnings per share amounted to 13.3p (27.2p).

But Bob Scott, chief executive of the company formed by the merger of Commercial Union and General Accident, said annual cost savings of £270m – up £45m on earlier estimates – would come on stream within two years.

He also reported progress on the integration of the two businesses and a strong performance in life insurance and savings with life profits up 19 per cent to £226m. The interim dividend is to be increased by 8 per cent to 13.25p.

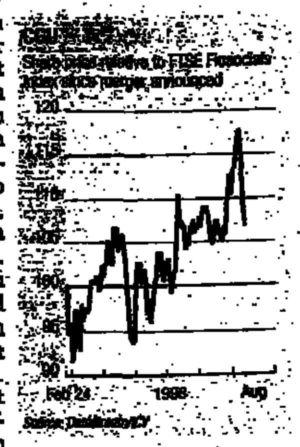
The merger was completed on June 2 and the six-month results to June 30 largely portray the performance of the two separate businesses. Mr Scott said it would take 18 months to judge CGU: "We are not making any quick fix decisions."

CGU shares fell 15p yesterday to £10.30p having lost 79p the day before on analysts' forecasts of a sharp drop in profits.

But the market appeared to have confidence in the new management team. "A focus on life insurance and improving earnings quality in the general business is exactly what people want to hear. People trust Bob Scott. It's too early to make a judgement," said Charles Landa at SG Securities.

COMMENT

CGU



1998 looks like proving a good year to have chosen for an insurance merger. It offers a depressed base from which the new CGU can make progress; throw in merger provisions and it conveniently becomes a year to forget. CGU, like its peers, has seen a pincer attack on general insurance profits. Claims have shot up from unnaturally low levels, and losses have crystallised on business underwritten at dangerously low prices. CGU's respectable 15 per cent growth in life assurance profits cannot offset this: group operating profits could fall by about 30 per cent this year to less than £700m. The good news is that the merger addresses the general insurance problems through cost-cutting and application of General Accident's tighter approach to underwriting. The question is whether a period of internal review in the Anglo-Saxon territories – the UK, North America, Australia and New Zealand – where the merger partners overlap, will detract from the continental European growth strategy of Commercial Union. The short-term view is reassuring – a period of expansion is being followed by better scrutiny of the returns. And a German acquisition shows that plans have not been frozen. But further out, serious jostling for position will have to resume on the continent.

Meanwhile faltering equity markets have brought CGU's price down from a demanding level. At 1.5 times net asset value it no longer looks expensive, although bargain hunters may prefer Royal & Sun Alliance.

Selfridges

British Land's timing in buying 3.1 per cent of Selfridges looks impeccable. After the recent share price tumble, Selfridges was capitalised at less than the book value of its property. British Land's attention may not have been sought, but the effect on the shares was surely welcome.

British Land's move does not look aggressive, but it must see scope for a property joint venture with Selfridges. It has a record in such deals. Selfridges may not think it needs any property help. It has plans for a tougher rent review of its hotel, and for converting office space for retail use. Furthermore, it does not need to shift property off balance sheet. Its focus now is implementing its retail strategy. But further out, it may well make sense to delegate property management to a company with greater property expertise.

BSkyB advances in digital battle

By Cathy Newman

British Sky Broadcasting, the satellite operator, yesterday raised the stakes in its battle with On Digital, by offering a cheaper package of digital channels.

The company also reported pre-tax profits of £270.9m ($447m), against £313.7m, for the year to June, mainly because of the cost of the digital launch, and higher spending on sports – up £113m to £287m – and marketing.

BSkyB's shares dipped after the lower than expected profits, but rallied to close up 10½p at 428p on analysts' enthusiasm about the company's competitive advantage over its rivals.

Mark Booth, chief executive, also bolstered the position of Elisabeth Murdoch, who moves from being general manager of broadcasting to oversee programme development and joint ventures as managing director of Sky Networks.

Operating profit dropped to £340.6m (£374m) on turnover of £1.4bn (£1.2bn).

Lex, Page 12

BT in $1bn Concert deal

By Christopher Price

British Telecommunications is to pay $1bn for MCI's 24.9 per cent stake in Concert Communications following the takeover by rival US telecoms operator, WorldCom.

The move will be the final transaction in the lengthy episode which saw the UK telecoms group vying with WorldCom for MCI, only to be trumped by a $37bn offer from the US company last year.

MCI took its stake in Concert in 1993 when the international communications venture was formed. At the same time, BT took a 20 per cent interest in MCI, for which it is due to receive $7bn when the takeover by WorldCom is complete.

BT recently announced a $10bn global venture with AT&T and yesterday said that after the Concert transaction, responsibility for distribution of Concert services in the US would be given to the US telecoms group.

However, MCI will also continue to distribute Concert services in the US for a further two years as part of the termination agreement.

News of yesterday's transaction had been expected. The surprise was the price, which was at the higher end of analysts' forecasts.

BT's agreement with AT&T last month will see the two companies pool their international operations in a joint venture. The move will generate an initial turnover of $10bn and operating profits of $1bn. It will also handle 25bn minutes of telecoms traffic annually.

CONTRACTS & TENDERS

CONTRACTS & TENDERS

EURO PRICES

EQUITIES

Europe lifted on turning tide

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

European stock markets enjoyed a day free of adverse influences from Asia and Wall Street, and achieved a modest reversal of their recent heavy losses.

A rally in the yen and a rebound in the Dow Jones Industrial Average late on Tuesday and at the New York opening yesterday gave Europe the opportunity to turn the tide.

The FTSE Eurotop 100 index rose 1.4 per cent or 37.72 points to 2,697.57, while the broader Eurotop 300 gained 15.42 to 1,174.59. The core European countries, as represented by the FTSE Eboc 100 index, managed an even better recovery, gaining 1.8 per cent or 17.27 to 991.88.

Europe still has attractions, despite the recent market falls; earnings expectations are still being revised upwards, inflation, interest rates and bond yields are all low and the cult of the equity is gradually taking hold.

Information technology, Tuesday's laggard, was the best performing sector of the day, gaining 9.2 per cent. SAP, which has slid since its New York listing, rebounded Ecu 50.20 to Ecu 581.65. Cap Gemini gained Ecu 11.10 to Ecu 140.17 on acquisition rumours and talk the company was immune from Asia's problems.

At the other end of the scale, the oil exploration sector fell 4.4 per cent as the continued weakness of the oil price offset the temporary benefit of the BP-Amoco deal. Lasmo dipped Ecu 0.20 to Ecu 2.94 and Enterprise Oil Ecu 0.10 to Ecu 6.47.

BP dipped Ecu 0.10 to Ecu 11.66, while Royal Dutch fell Ecu 1 to Ecu 41.24.

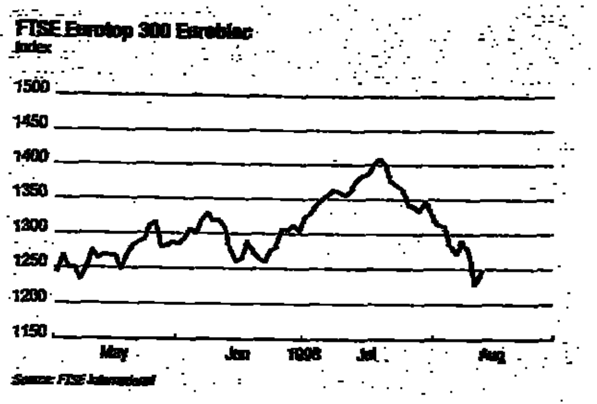
In the pharmaceuticals sector, a planned share buy-back from Novo Nordisk lifted the shares Ecu 6.90 to Ecu 115.45. The sector was 1.3 per cent higher.

In healthcare, the volatile Nycomed Amersham gained Ecu 0.30 to Ecu 6.08.

The household goods sector was lifted 4.1 per cent by an Ecu 22.70 jump in L'Oreal to Ecu 512.20 and continuing favourable reaction to figures from Electrolux, up Ecu 1.10 to Ecu 15.41.

Further speculation that Dresdner Bank had held exploratory talks with PaineWebber of the US sent the former's shares up Ecu 0.7 to Ecu 47.94.

FTSE Eurotop 300 Eurobloc
Index



Source: FTSE International

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.900	95.900	-0.020	95.900	95.900	358	17141
Dec	96.190	96.190	-0.030	96.195	96.190	145	7593
Mar	96.200	96.280	-0.020	96.205	96.200	145	4778
Jun	96.110	96.120	-0.010	96.115	96.110	116	1975

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
96000	0.005	0.015	0.230	0.245	0.085	0.095	0.010	0.025
96125	0	0.005			0.205	0.210		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	2687.0	2714.0	+48.0	2687.0	2687.0	25	1667
Dec		2738.0	+38.0			0	73

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2700 C	2700 P	2725 C	2725 P	2750 C	2750 P	2775 C	2775 P	2800 C	2800 P	2825 C	2825 P	2875 C	2875 P	2900 C	2900 P
Aug	59	50	38	63	28	78	21	95	15	115	11	136	8	187	4	205
Sep	105	96	92	107	79	120	68	134	58	149	48	165	35	200	29	220

Est vol total:15 . Prev day's open interest total: 4,871 . Premiums shown are based on settlement prices.

OTHER INDICES

	Aug 12	Aug 11	Aug 10	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	(u)	3187.26	3274.93	3670.82	2574.57	3670.82	2976.42
DJ Euro Stx 50	(u)	3187.44	3282.70	3858.48	2466.81	3858.48	2865.52
MSCI Europe	1153.87	1188.38	1211.58	1316.86	980.50	1316.86	510.78

Source: Extel/part of FT information. *Subject to revision next day. (u) unavailable.

FTSE Actuaries Share Indices — European series

August 12

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1174.59	+1.33	+15.42	2.45	20.79	1204.22
FTSE Eurotop 100	2697.57	+1.42	+37.72	2.45	30.12	963.09
FTSE Eboc 100	991.88	+1.77	+17.27	2.11	12.61	1004.11
FTSE Eurotop 300 Regions						
Eurobloc	1247.88	+1.75	+21.49	2.10	18.88	1271.45
UK	1047.98	+0.13	+1.33	3.14	28.03	1090.16
Europe Ex-Eurobloc	1133.06	+0.88	+9.77	2.83	21.67	1145.57
Europe Ex-UK	1246.63	+1.90	+23.29	2.13	17.83	1267.74
FTSE Eurotop Industry Sectors						
RESOURCES	851.84	-0.72	-6.16	3.37	21.81	882.98
Extractive Industries	743.97	-0.45	-3.36	3.46	0.00	743.97
Oil, Integrated	828.26	-0.66	-5.45	3.37	15.03	833.67
Oil, Exploration & Prod	763.10	-4.44	-35.42	3.16	0.00	763.10
GENERAL INDUSTRIES	1112.38	+0.98	+10.86	2.62	18.53	1132.80
Construction	921.29	-0.23	-2.09	2.77	11.06	932.01
Building Matls & Merchs	933.70	+2.22	+20.31	2.84	7.85	940.20
Chemicals	902.11	+1.32	+11.77	3.12	15.96	918.46
Diversified Industrials	936.73	+1.20	+11.09	2.32	16.20	951.49
Electronic & Elect Equip	967.63	+0.75	+7.23	1.87	3.25	970.66
Engineering	945.39	+0.44	+4.17	3.49	9.21	953.67
Paper, Pckg & Printing	819.15	+1.18	+9.58	2.87	1.21	820.17
CONSUMER GOODS	1118.43	+1.61	+17.55	1.73	14.97	1137.15
Automobiles	1027.78	+1.10	+11.21	2.53	10.25	1037.31
Alcoholic Beverages	916.98	+0.46	+4.25	2.38	5.82	922.43
Food Producers	949.11	+2.15	+20.01	1.89	9.13	957.49
Household Goods & Texts	1060.59	+4.06	+41.37	1.74	7.01	1067.51
Healthcare	962.73	+4.40	+40.54	6.64	8.52	972.52
Pharmaceuticals	952.50	+1.33	+12.46	1.36	4.27	956.66
Tobacco	1045.48	+0.17	+1.79	4.05	1.81	1047.44
SERVICES	1180.42	+1.58	+18.15	2.27	19.32	1209.37
Distribution	834.02	+0.31	+2.59	2.61	11.37	843.39
Leisure & Hotels	832.28	+0.02	+0.17	2.99	10.42	841.10
Media	984.67	+0.56	+5.46	2.34	5.58	989.99
Retailers, Food	982.26	+1.84	+17.76	3.04	9.18	991.43
Retailers, General	963.84	+0.75	+7.16	3.55	13.94	976.96
Telecommunications	1104.80	+1.75	+18.96	1.87	12.47	1116.85
Breweries, Pubs & Rests	860.12	+0.10	+0.83	3.31	14.20	873.20
Support Services	928.86	+2.51	+22.74	1.49	5.66	934.16
Transport	985.79	-0.44	-4.39	2.49	11.76	996.82
Information Technology	1227.31	+9.22	+103.89	0.34	2.23	1230.10
UTILITIES	1352.74	+0.54	+7.21	3.29	53.32	1425.96
Electricity	1012.78	+1.33	+13.28	3.50	26.23	1039.83
Gas Distribution	1075.59	-1.32	-14.33	1.72	84.81	1174.65
Water	1045.01	-0.21	-2.18	4.89	38.72	1084.92
FINANCIALS	1332.70	+1.87	+24.48	2.53	23.06	1363.64
Banks,Retail	942.43	+1.51	+13.98	3.20	10.17	952.11
Insurance	1024.21	+2.87	+28.60	1.30	8.87	1033.34
Life Insurance	1086.84	+1.71	+18.27	1.94	5.38	1092.41
Other Financial	939.91	+1.18	+10.99	2.15	13.23	952.32
Investment Companies	959.78	-0.28	-2.74	2.80	20.66	977.72
Property	775.29	-0.50	-3.89	3.44	16.01	789.54

Further information is available on http://www.ftse.com. © FTSE International Limited 1998. All rights reserved. 'FTSE' and 'Footsie' are registered trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. 'Eurotop' is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop Indices are compiled by FTSE International.

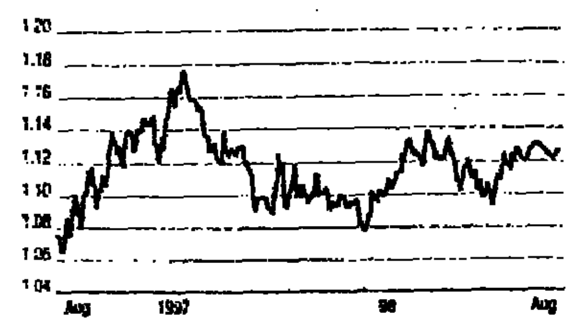
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Aug 12	Currency code	Closing mid point	Change on day	Change on day %	Change on week	Change week %
Europe						
Austria	ATS	14.065264	-0.0014	-0.01	+0.0005	+0.00
Belgium	BEF	41.227950	+0.0109	[illegible]	[illegible]	[illegible]
Czech Republic	CZK	35.930034	+0.2245	[illegible]	[illegible]	+3.54
Denmark	DKK	7.613080	-0.0023	[illegible]	[illegible]	[illegible]
Finland	FIM	6.077180	-0.0001	[illegible]	[illegible]	[illegible]
France	FRF	6.701006	-0.0011	[illegible]	[illegible]	[illegible]
Germany	DEM	1.999105	-0.0001	-0.01	[illegible]	[illegible]
Greece	GRD	332.842474	+0.9197	[illegible]	[illegible]	[illegible]
Hungary	HUF	248.043585	-1.2989	-0.52	+4.6851	+1.93
Ireland	IEP	0.797299	+0.0011	+0.14	+0.0019	[illegible]
Italy	ITL	1972.070254	-0.2758	-0.01	[illegible]	[illegible]
Luxembourg	LUF	41.227950	-0.0109	+0.03	+0.0052	[illegible]
Netherlands	NLG	2.253907	+0.0001	[illegible]	[illegible]	[illegible]
Norway	NOK	8.515599	-0.0161	-0.19	-0.0055	-0.06
Poland	PLN	3.938747	+0.0312	+0.80	+0.0764	+1.98
Portugal	PTE	204.573987	+0.0825	+0.04	[illegible]	[illegible]
Romania	ROL	9814.166954	+32.9174	+0.34	[illegible]	[illegible]
Russia	RUB	7.144488	+0.0726	+1.03	[illegible]	[illegible]
Slovakia	SKK	39.726396	+0.0492	+0.12	+0.6404	+1.64
Spain	ESP	169.659771	+0.0003	+0.00	[illegible]	[illegible]
Sweden	SEK	9.107434	-0.0250	-0.27	[illegible]	+1.57
Switzerland	CHF	1.670183	-0.0005	-0.03	[illegible]	-0.36
United Kingdom	GBP	0.881613	+0.0041	+0.59	[illegible]	[illegible]
ECU	ECU	1.013351	-0.0002	-0.02	[illegible]	[illegible]
Americas						
Brazil	BRL	1.318619	+0.0072	+0.55	[illegible]	[illegible]
Canada	CAD	1.707488	+0.0006	-0.04	-0.0010	-0.06
Mexico	MXN	10.352045	+0.0091	+0.09	+0.1908	+1.88
United States	USD	1.126447	+0.0041	+0.37	[illegible]	[illegible]
Pacific/Middle East/Africa						
Australia	AUD	1.888713	-0.0048	-0.25	[illegible]	+1.92
Hong Kong	HKD	8.728830	+0.0310	+0.36	[illegible]	[illegible]
Japan	JPY	164.466852	-0.6752	-0.41	[illegible]	+1.09
Singapore	SGD	1.970493	-0.0057	-0.29	+0.0252	+1.30
South Africa	ZAR	7.141672	-0.0245	-0.34	+0.1979	+2.85

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying ECU weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2297, ITL 0.1823, NLG 0.0577, BEF 0.0308, ESP 0.0848, IEP 0.0116, PTE 0.0155, ATS 0.0325, FIM 0.0157.

Synthetic Euro against the dollar
$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

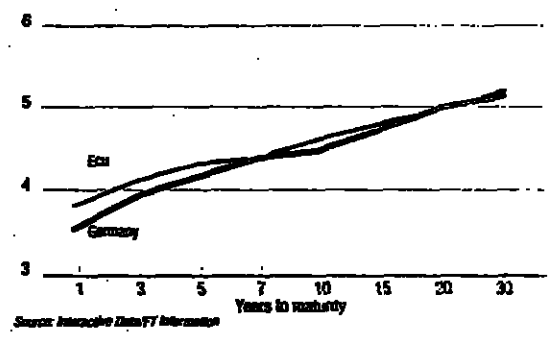
Bilateral conversion rates against the D-Mark

Aug 12	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	[illegible]	7.0358	+0.00	+0.01	7.0358	3.61	+0.04
Belgium	[illegible]	20.6232	-0.01	-0.02	20.6249	3.59	+0.02
France	[illegible]	3.3537	-0.06	-0.03	3.3527	3.59	+0.02
Finland	[illegible]	3.04	+0.00	+0.02	3.0403	3.6	+0.03
Ireland	[illegible]	0.3988	-0.96	-1.20	0.4027	5.73	+2.16
Italy	990.102	986.4766	-0.36	-0.34	980.584	4.66	+1.09
Luxembourg	[illegible]	20.6232	-0.01	-0.02	20.6249	3.59	+0.02
Netherlands	[illegible]	[illegible]	+0.07	+0.08	1.1271	3.48	-0.09
Portugal	[illegible]	[illegible]	-0.12	-0.19	102.5726	4.15	+0.61
Spain	[illegible]	84.8679	-0.24	-0.25	85.092	4.26	+0.69
Germany	1		+0.00	+0.00		3.57	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2-3. Forward rates are exchange rates to 31.12.98 interpolated from market quotes. Forward interest rates are those implied by these forward exchange rates. Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31.12.98. DEM forward interest rate for 31.12.98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve
Per cent (August 12 1998)



Source: Interactive Data/FT Information

EUROZONE CORPORATE BONDS

Aug 12	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible issues								
Belgium, Kingdom of	03/28	5.750	N/A	107.640	4.74	+0.05	-0.18	[illegible]
France, Rep of	04/06	5.250	N/A	104.190	4.62	+0.04	-0.22	-0.34
Italy, Rep of	[illegible]	5.000	AA	102.070	4.73	+0.12	-0.22	+0.19
Portugal, Rep of	[illegible]	5.775	AA-	[illegible]	[illegible]	[illegible]	-0.17	+0.11
Euro issues								
Abbey Natl Treasury Sv	[illegible]	4.875	AA	102.100	4.35	+0.04	-0.25	+0.01
Gen Electric Cap Crp	[illegible]	5.500	N.A	105.520	4.45	[illegible]	-0.22	+0.11
Dest Kontrollbank	04/08	5.250	AAA	103.970	4.74	+0.03	-0.24	+0.10
Credit Local de France	04/08	5.250	N.A	102.510	4.87	+0.03	-0.23	+0.23
Ecu issues								
Bayer Hypo & W.Bk	07/01	5.000	AA-	101.977	4.26	[illegible]	-0.17	+0.12
Cred Foncier France	03/04	8.375	A	116.780	4.96	+0.04	-0.17	+0.12
Euro Inv Bank	04/04	5.250	AAA	104.700	4.29	+0.06	-0.17	-0.05
ABN Amro Hldg. NV	04/07	6.375	AA-	109.710	4.02	+0.02	-0.22	+0.19

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Euro "in" sovereigns and fungible into new big Euro issue 1.1.99. Euro issues are issued in the new currency. Ecu bonds are issued in Ecus but convert to Euros 1.1.99.

GOVERNMENT BOND SPREADS vs ECU

Aug 12	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"Ins"						
Austria	-0.07	-0.09	+0.09	+0.06	+0.09	+0.04
Belgium	-0.09	-0.05	+0.11	+0.10	+0.14	+0.13
Finland	-0.11	+0.01	+0.12	+0.06	-0.30	-0.51
France	-0.14	-0.12	-0.05	-0.03	+0.30	-0.03
Germany	-0.25	-0.14	-0.01	-0.17	+0.02	-0.07
Ireland	+0.61	-0.03	+0.07	+0.12	+0.12	+0.27
Italy	+0.24	+0.17	+0.21	-0.16	+0.11	+0.20
Luxembourg	-0.09	-0.05	+0.11	+0.10	+0.14	+0.13
Netherlands	-0.15	-0.12	-0.01	-0.04	-0.02	-0.03
Portugal	+0.09	+0.10	+0.17	+0.18	+0.28	+0.31
Spain	-0.01	+0.03	+0.11	+0.15	+0.28	+0.26
"Outs"						
Denmark	+0.24	+0.18	+0.25	+0.16	+0.08	+0.22
Greece	+6.26	+3.99	+3.28	+2.61	+2.09	+1.88
Sweden	+0.27	+0.22	+0.28	+0.18	+0.16	-0.05
UK	+2.55	+1.49	+1.29	+0.85	+0.50	+0.09

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Aug 12	S & P rating	Red date	Coupon	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	+0.04	+0.04	+0.00
France Telecom	AA+	11/06	6.250	FRF	+0.16	+0.16	+0.15
Halifax	AA	07/07	5.625	DEM	+0.25	+0.18	+0.17
Ing Bank NV	AA-	01/08	5.500	NLG	+0.19	+0.17	+0.20
Bayer Hypo W Bk	AA-	02/02	6.750	ITL	+0.26	+0.28	+0.27
Cred Foncier	A	02/03	7.250	DEM	+0.30	+0.33	+0.31
Thomson-Scandinvl	A-	03/04	6.375	FRF	+0.42	+0.36	+0.37
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.33	+0.33	+0.33
Bank of China	BBB	07/99	7.125	DEM	+1.37	+0.70	+0.63
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	+0.64	+0.61	+0.65
Korea Dev Bank	BB+	11/02	5.625	FRF	+6.25	+5.89	+5.92
Argentina	N/A	04/06	8.125	XEU	+3.49	+3.21	+3.13

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

FTSE EUROTOP 300

Price (Ecu) | Chge +or- | Mkt.cap Ecu(bn) | Vol (m) | Yld

ALCOHOLIC BEVERAGES · AUTOMOBILES · BANKS RETAIL · BREWERIES, PUBS & RESTAURANTS · BUILDING MATERIALS & MERCHANTS · CHEMICALS · CONSTRUCTION · DISTRIBUTORS · DIVERSIFIED INDUSTRIALS · ELECTRICITY · ELECTRONIC & ELECTRICAL EQPT. · ENGINEERING · EXTRACTIVE INDUSTRIES · FOOD PRODUCERS · GAS DISTRIBUTION · HEALTH CARE · HOUSEHOLD GOODS & TEXTILES · INFORMATION TECHNOLOGY · INSURANCE · INVESTMENT COMPANIES · LEISURE & HOTELS · LIFE INSURANCE · MEDIA · OIL, EXPLORATION & PRODUCTION · OIL, INTEGRATED · OTHER FINANCIAL · PAPER, PACKAGING & PRINTING · PHARMACEUTICALS · PROPERTY · RETAILERS, FOOD · RETAILERS, GENERAL · SUPPORT SERVICES · TELECOMMUNICATIONS · TOBACCO · TRANSPORT · WATER

[illegible]

Winds of change blow through Chicago

The CBOT and the CME are finally getting to grips with electronic trading systems, writes Nikki Tait

Pat Arbor, chairman of the Chicago Board of Trade, stepped out of a Washington hearing this week to outline differences in electronic trading systems to reporters. Halfway through the explanation, a wry smile appeared. "Who'd have thought a few months ago that I'd have been talking about this?" he said.

Winds of change have been blowing through Chicago's futures industry with renewed force in recent weeks. To say that traders at the two big exchanges – the Board of Trade and Chicago Mercantile Exchange – see a floorless, screen-based trading future ahead of them might be an exaggeration.

But there is a widespread realisation that electronic trading systems will play a significant role in the months and years to come.

"Change is so constant – and the concept of electronic trading, which six months ago was strange, is far more accepted now," says Scott Gordon, CME chairman.

Mr Arbor points to the CBOT board decision – yet to be approved by members – to allow certain interest rate futures to be traded electronically during the day alongside the pit-based open-outcry system from next month. "We crossed the Rubicon," he says.

The question is no longer when or whether the Chicago exchanges will adopt electronic trading, but how.

In contrast to those of some European exchanges, the decisions have been piecemeal. CBOT's move on bond futures takes effect next month but is essentially a defensive step, driven by the threat of a rival electronic system for Treasury futures being devised by US broker-dealer Cantor Fitzgerald and the smaller New York Board of Trade.

More pro-active is CBOT's plan, announced last week, to launch electronic trading of five new agricultural commodities – sugar, coffee, cocoa, orange juice and cotton. Regulatory approval is required and some work will be needed to formalise contract specifications, clearing arrangements and so on.

However, Mr Arbor insists the products have been on CBOT's radar-screen for some time, and that many firms trading them in New York are also members of the Chicago exchange, implying that some business would flow to the Midwest.

Nevertheless, these are also the commodities that dominate the agricultural division of the NYBT, suggesting a degree of retaliation may have featured in CBOT's thinking.

The Chicago Mercantile Exchange has been moving along a similar track. It has brought a small amount of electronic trading to its existing floor, via the "e-mini" equity index contract, which can be traded on screens or by open-outcry, and a new "turn rate" financial contract.

At both exchanges, however, these moves are only opening manoeuvres. "It is clear that some customers want electronic trading for certain products," says Mr Gordon, although he adds that this "groundswell" does not appear to stretch to the agricultural pits.

He sees two objectives: to bring new products to the floor through links with the other exchange, and to get the CME's product range distributed globally. This goal lay behind his recent comment to members: "The CME is committed to creating a global electronic network through which customers around the world can access selected CME products around the clock."

Similar considerations, and the need to make efficient use of technology spending, also prompted the CME to approach the CBOT about pooling their technology platforms. The CBOT agreed to talk, say people involved, on condition that the discussions encompassed the prospect of a much-fuller alliance, or a form of merger.

While discussions are still taking place, existing alliances may be a stumbling block, at least temporarily. The CBOT is hooking up with Eurex, the German/Swiss electronic exchange, and both plan to disseminate each other's products on each other's screens next year. The CME is bringing on a different electronic system – based around the French Matif exchange's technology – later this year.

Mr Arbor says the CBOT will do nothing to jeopardise the relationship with Eurex but acknowledges talks are continuing. Mr Gordon says the CME "is happy to keep the door open".

All this does little to address the issue of falling seat prices, the exchanges' other big headache. As the likelihood of a switch to electronic trading has mounted, the value of these "admission tickets" has dived.

This, too, has set the exchanges thinking. In an effort to find a way of realising value for members, both have looked at possible changes to their current member-owned structures.

CBOT has toyed with the idea of turning its electronic trading arm into a separate corporate subsidiary and floating equity on the stockmarket; the CME has entertained broader "demutualisation" thoughts.

As with other aspects of their strategies, there seems to be a belated awareness that there is little time to lose. Mr Gordon expects an announcement shortly. "I think we'll do that easily in the third quarter," he says.

Patrick Arbor, CBOT chairman: 'We crossed the Rubicon'

Prices fall as stocks, yen stabilise

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

Prices fell yesterday, back-pedalling as world stock markets regained some of their composure and the yen gained ground against the dollar.

However, analysts said there was nothing to suggest the rug had been pulled from under the bond markets and recent bullish fundamentals were still firmly in place.

"The broader concerns [over Asia and Russia] will remain in the background and the economic calendars for major markets are light. So for the near term, bond markets remain very firmly underpinned," said Andy Bevan, senior bond strategist at Goldman Sachs.

In the US, Treasuries started lower on the combined effects of supply worries and the Dow Jones Industrial Average opening about 50 points higher.

In Europe, only UK gilts made any headway, ending higher on optimism that UK interest rates may have finally peaked after months of uncertainty.

US TREASURIES were lower at midday in the midst of the second of three auctions, and as calm returned to global markets.

By early afternoon the benchmark 30-year bond was down [illegible] to 106[illegible], sending the yield higher to 5.635 per cent.

Among shorter term issues the two-year note was down [illegible] to 100[illegible], yielding 5.340 per cent, while the 10-year note lost [illegible] to 101[illegible], yielding 5.420 per cent.

With little fresh significant economic news expected until the retail sales and producer price index reports, overseas concerns continued to weigh on the US market.

"It's really a slow drift lower on a weaker dollar, a stronger stock market and concerns about the 10-year auction," said Tom O'Connell, senior government trader at First Chicago Capital Markets.

UK GILTS took heart from figures showing a slowdown in wages growth, which has been a key concern of the Bank of England in its inflation considerations.

The Bank, in its inflation report, said the UK economy was cooling and that although inflation may pick up in the next 12 months, it would fall back close to the Bank's 2.5 per cent target in two years' time.

Both factors were positive for gilts, with markets interpreting them as a sign that interest rates had peaked. The key futures contract, the September 10-year, settled 0.10 higher at 110.56. Volume was heavy, with 77,500 contracts traded.

Neil Parker, treasury economist at Royal Bank of Scotland, said: "I think all the evidence that we've had today is that the UK economy is slowing and inflationary pressure will be subdued." However, Mervyn King, deputy Bank governor, said it was too early to assume that rates were heading lower.

GERMAN BUNDS ended lower on profit-taking. The September 10-year future fell 0.20 points to 110.60 in volume of 388,000 contracts traded in Frankfurt.

Philippines to raise $500m

INTERNATIONAL BONDS

By Justin Marozzi in Manila and Vincent Boland in London

The Philippines yesterday named Goldman Sachs as the lead manager of a US dollar-denominated global bond issue and J.P. Morgan and Warburg Dillon Read as joint lead managers of a euro-denominated issue.

Edgardo Espiritu, finance secretary, said the two sovereign issues would raise a total of at least $500m. The first will be a global issue of dollar-denominated floating-rate securities and is targeted for next month.

This will be followed by a euro-denominated bond, the first in the new European single currency by a sovereign issuer from Asia.

"The two-phased programme addresses concerns on the volatile market environment and provides greater flexibility to meet our objectives," Mr Espiritu said. The European issue would introduce the Philippines' "credit story" to investors and diversify its lending base, he added.

The country last launched a sovereign issue in April with a well received $500m global bond, the first sovereign Asian issue since the regional crisis began in July last year. It was priced at 337.5 basis points over US Treasuries, but the spread has since widened to 575 basis points, after the recent flight to quality and setback in emerging markets.

Analysts believe the government will be seeking to raise much more than the official figure of $500m this time, following other signals from the department of finance.

Activity was light in the new issues market yesterday, with issuers staying on the sidelines. But some stability returned to secondary market trading and spreads in emerging market debt were steady at current very wide levels, traders said.

Liquidity was also reduced by US Treasury auctions, which analysts said were well timed to capture the current flight to safety.

FREDDIE MAC, the US mortgage agency, was one of the few issuers to tap the market, launching a $1bn, one-year bond that reflected continuing demand for defensive instruments in the current volatile market climate, according to a banker at Lehman Brothers, lead manager.

The issue attracted good international demand from central banks and investment management groups, he said.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Freddie Mac★	1bn	5.544#	100.00	Aug 1999	0.05	-	Lehman Brothers
Svenska Handelsbanken‡	200	(a)	100.028	Aug 1999	0.05	-	Merrill Lynch
Countrywide Home Loans‡	50	(b)	99.941	Aug 1999	0.05	-	Lehman Brothers
FRENCH FRANCS							
BNG(c)	300	zero	100.305	Sep 2008	0.325	-	BNP
SWISS FRANCS							
GECC(d)	200	2.50	100.80	May 2002	1.50	-	CSFB/Deutsche Bank
BNG(f)	100	3.25	101.55	May 2008	2.75	-	ABN Amro Bank(Zurich)

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor -6½bp. b) 3-mth Libor +1bp. c) Redemption linked to CAC-40. d) Fungible with SFr500m. Plus 118 days accrued. f) Fungible with SFr300m. Plus 97 days accrued.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Aug 12	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.7261	5.28	-0.03	+0.23	+0.04	+0.01
	08/08	8.750	123.8008	5.60	-0.07	+0.16	+0.12	-1.22
Austria	07/00	5.875	103.4900	3.95	-	-0.10	+0.10	-0.17
	01/08	5.000	102.4700	4.67	+0.04	-0.09	-0.16	-1.05
Belgium	01/00	4.000	100.2100	3.83	+0.04	-0.12	-0.20	-0.03
	03/08	5.750	107.8400	4.74	+0.05	-0.07	-0.13	-1.01
Canada	03/00	5.000	99.6100	5.26	-	-	+0.11	+0.74
	06/08	6.000	103.4200	5.54	+0.05	+0.11	+0.26	-0.45
Denmark	11/00	9.000	109.8000	4.31	+0.01	-0.06	+0.06	-0.17
	11/07	7.000	116.1800	4.79	+0.03	-0.10	-0.14	-1.46
Finland	01/99	11.000	102.9433	3.51	-	-0.09	-0.15	-0.34
	04/08	6.000	109.9860	4.69	+0.01	-0.08	-0.10	-1.18
France	01/00	4.000	100.2700	3.79	+0.03	-0.09	-0.13	-0.23
	04/05	7.500	117.9600	4.34	+0.04	-0.10	-0.15	-0.88
	04/08	5.250	104.9900	4.60	+0.04	-0.10	-0.18	-0.99
	04/29	5.500	104.8200	5.18	+0.04	-0.08	-0.15	-1.16
Germany	03/00	4.000	100.4100	3.72	+0.03	-0.16	-0.06	-0.13
	10/05	6.500	112.5100	4.42	+0.03	-0.12	-0.13	-0.85
	01/08	5.250	105.6300	4.51	+0.04	-0.11	-0.22	-1.15
	01/28	5.625	107.2000	5.14	+0.04	-0.07	-0.17	-1.24
Ireland	10/01	6.500	106.0200	4.42	+0.02	-0.14	-0.75	-1.50
	08/06	8.000	109.6500	4.77	+0.01	-0.11	-0.21	-1.64
Italy	04/01	4.500	100.6380	4.24	+0.02	-0.09	-0.07	-1.79
	05/03	4.750	101.3000	4.44	+0.02	-0.09	-0.05	-1.72
	05/08	5.000	101.9700	4.74	+0.02	-0.09	-0.18	-1.76
	11/27	6.500	117.3300	5.32	+0.04	-0.06	-0.16	-1.83
Japan	03/00	6.400	109.3700	0.47	+0.02	-0.03	-0.05	-0.17
	06/03	4.500	116.7800	0.94	-	-0.04	-0.10	-0.71
	09/05	3.000	111.9100	1.24	-0.01	-0.05	-0.23	-0.95
	03/18	2.700	109.7700	2.09	-0.01	-0.05	-0.20	-0.86
Netherlands	05/00	9.000	108.4900	3.85	+0.01	-0.11	-0.17	-0.12
	07/08	5.250	104.9500	4.61	+0.02	-0.09	-0.12	-1.00
New Zealand	02/01	8.000	103.2046	6.54	-0.09	+0.11	-0.70	-0.85
	11/06	8.000	110.8313	6.26	-0.05	+0.16	-0.09	-0.87
Norway	01/99	9.000	101.3750	5.64	-	+0.21	+0.25	+1.11
	01/07	8.750	109.4500	5.32	-0.01	-0.03	-0.06	-0.70
Portugal	03/00	5.375	101.9500	4.08	-0.03	-0.08	-0.20	-1.25
	06/08	5.375	104.3000	4.81	-	-0.11	-0.14	-1.54
Spain	04/00	6.750	104.2300	4.06	+0.08	-0.05	-0.12	-1.03
	01/08	6.000	109.2400	4.76	+0.03	-0.10	-0.14	-1.52
Sweden	05/00	10.250	109.6480	4.28	-	-0.01	+0.16	-0.53
	05/08	6.500	112.8870	4.80	-0.02	-0.07	-0.06	-1.73
Switzerland	03/00	5.000	104.6300	1.98	+0.01	-0.12	-0.35	+0.40
	06/07	4.500	113.5300	2.75	+0.02	-0.07	-0.53	-0.71
UK	11/01	7.000	102.1719	6.24	-0.05	-0.23	-0.93	-0.74
	12/03	6.500	103.1484	5.80	-0.06	-0.23	-0.23	-1.29
	12/07	7.250	112.2739	5.55	-0.02	-0.16	-0.27	-1.48
	12/28	6.000	110.4063	5.31	-	-0.08	-0.28	-1.74
US	05/00	5.500	100.2165	5.37	+0.06	-0.03	-0.12	-0.59
	05/03	5.500	100.3226	5.42	+0.05	-0.03	-0.13	-0.88
	05/08	5.625	101.6245	5.41	+0.04	-0.02	-0.15	-0.95
	11/27	6.125	107.1829	5.62	+0.03	-0.03	-0.12	-1.01
ECU	07/00	4.000	99.9900	4.00	+0.02	-0.11	-0.04	-0.45
	04/08	5.250	104.7500	4.63	+0.03	-0.10	-0.17	-1.31

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Aug 12	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.59	+1.12	+0.18	New Zealand	6.26	+1.79	+0.85
Austria	4.70	+0.23	-0.71	Norway	5.31	+0.84	-0.10
Belgium	4.74	+0.27	-0.67	Portugal	4.82	+0.35	-0.59
Canada	5.53	+1.06	+0.12	Spain	4.79	+0.32	-0.62
Denmark	4.80	+0.33	-0.61	Sweden	4.82	+0.35	-0.59
Finland	4.70	+0.23	-0.71	Switzerland	2.74	-1.73	-2.67
France	4.61	+0.14	-0.80	UK	5.49	+1.02	+0.08
Germany	4.47	-	-0.94	US	5.41	+0.94	-
Ireland	4.76	+0.29	-0.65	ECU	4.64	+0.17	-0.77
Italy	4.80	+0.33	-0.61				
Japan	1.50	-2.97	-3.91				
Netherlands	4.60	+0.13	-0.81				

Source: Interactive Data/FT Information
London closing. * New York closing.
Annualised yield basis.

EMERGING MARKET BONDS

Aug 12	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	97.1826	7.93	-0.24	+0.33	+2.59
Poland	07/04	7.125	BBB-	103.5910	6.38	-0.15	-0.05	+1.01
Russia	06/07	10.000	B+	47.7500	24.82	-1.86	+10.40	+19.42
LATIN AMERICA								
Argentina	09/27	9.750	BB	87.0000	11.28	-0.44	+1.17	+5.87
Brazil	05/27	10.125	BB-	76.2500	13.37	-0.60	+2.11	+7.78
Mexico	05/26	11.500	BB	104.0000	11.02	-0.50	+1.29	+5.42
ASIA								
China	07/06	7.750	BBB+	102.2436	7.36	-0.34	+0.57	+1.97
Philippines	10/16	8.750	BB+	89.0005	10.06	+0.08	+0.89	+4.59
Thailand	04/07	7.750	BBB-	85.3142	10.39	+0.23	+0.85	+4.99
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	102.3121	7.79	-0.62	-0.22	+2.45
South Africa	10/06	8.375	BB+	97.0466	8.89	-0.52	+1.02	+3.50
Turkey	09/07	10.000	B	94.7094	10.94	+0.29	+0.83	+5.94
BRADY BONDS								
Argentina	03/23	5.750	BB	71.6250	8.63	-0.08	+0.57	+3.26
Brazil	04/14	5.000	BB-	66.8750	12.21	-0.46	+1.79	+6.74
Mexico	12/19	6.250	BB	78.3750	8.45	-0.11	+0.60	+2.92
Venezuela	03/20	6.750	B+	68.0000	10.53	-0.22	+1.44	+4.99

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	106.50	106.46	-0.32	106.61	106.38	83,875	142,936
Dec	106.03	106.00	-0.32	106.04	105.84	16,726	3,887

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Sep	Calls Oct	Calls Dec	Puts Sep	Puts Oct	Puts Dec
102	3.48	-	3.04	-	-	0.04
103	2.48	-	2.14	0.01	-	0.14
104	1.51	-	1.37	0.04	-	0.35
105	0.63	-	0.77	0.15	-	0.74

Est. vol. total, Calls 19,530 Puts 13,052. Previous day's open int., Calls 49,547 Puts 49,182

Germany

NOTIONAL GERMAN BOND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	110.79	110.60	-0.20	110.79	110.51	7987	69891
Dec		109.84	-0.20			0	1186

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Sep	Calls Oct	Calls Nov	Calls Dec	Puts Sep	Puts Oct	Puts Nov	Puts Dec
11050	0.45	0.29	0.40	0.60	0.15	0.75	0.86	1.06
11100	0.17	0.15	0.24	0.42	0.37	1.11	1.20	1.38
11150	0.06	0.07	0.14	0.28	0.76	1.53	1.60	1.74

Est. vol. total, Calls 12470 Puts 24432. Previous day's open int., Calls 125258 Puts 108876

NOTIONAL GERMAN BOND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	106.71	106.64	-0.11	106.72	106.59	119,810	296,435
Dec	106.09	106.11	-0.12	106.15	106.09	1,912	24,073

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	122.38	122.29	-0.16	122.41	122.20	13709	102916
Dec		108.59	-0.14			0	10590

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Oct	Puts Sep	Puts Oct
10300		5.73		0
10350		5.23		0
10400		4.73		0

Est. vol total, Calls 555 Puts 0. Previous day's open int., Calls 8876 Puts 11876

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	111.58	111.58	-0.18	111.70	111.45	45,841	128,758
Dec	111.92	111.90	-0.13	111.92	111.92	127	416

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		104.46	+0.21			0	2366

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	110.18	110.56	+0.10	110.68	110.10	78284	170150
Dec	110.70	110.71	+0.10	110.70	110.54	506	3795

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls Sep	Calls Oct	Calls Nov	Puts Sep	Puts Oct	Puts Nov
11000	0.67	1.09	1.28	0.21	0.48	0.67
11050	0.37	0.81	1.00	0.41	0.70	0.89
11100	0.19	0.57	0.76	0.73	0.96	1.15

Est. vol. total, Calls 28876 Puts 4202. Previous day's open int., Calls 95415 Puts 39314

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	124-07	123-29	-0-11	124-08	123-26	582,753	799,673
Dec	124-01	123-22	-0-11	124-01	123-20	29,448	228,579
Mar	-	123-25	-	-	-	8,226	44,822

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	134.18	134.10		134.18	134.08	1384	n/a
Dec	133.95	133.92		133.95	133.90	237	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	-	105.46	-0.32	-	-	0	18

US CORPORATE BONDS

Aug 11	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	104.5072	5.92	-0.05	-0.05	+0.58
NY Tel	08/25	7.00	A+	100.6526	6.94	-0.03	+0.07	+1.35
CWE	05/08	8.00	BBB	112.0366	6.32	-0.04	-0.04	+0.95
FINANCIALS								
GECC	05/07	8.75	AAA	118.1190	6.05	-0.03	+0.07	+0.68
Banc One	08/02	7.25	A+	104.3505	5.99	-0.03	-0.08	+0.65
US West	01/07	7.30	BBB	105.5437	6.44	-	+0.25	+0.98
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.1153	6.04	-0.03	-0.04	+1.11
Wal Mart	05/02	6.75	AA	103.3693	5.73	-0.05	-0.11	+0.39
Dayton Hud	06/21	9.70	BBB+	136.0088	6.61	-0.04	-0.02	+1.02
AGENCIES								
FHLMC	04/07	7.14	N/A	109.5494	5.72	-0.03	+0.01	+0.35
SLMA	03/00	7.50	N/A	102.9291	5.52	-0.03	-0.08	+0.24
FNMA	02/16	8.95	N/A	135.1907	5.89	-0.03	-0.03	+0.30
FFCB	08/06	8.95	N/A	120.2122	5.70	-0.02	+0.03	+0.33
HIGH YIELD								
Stone Cont	02/01	9.88	B	102.0000	0.00	-	-	-
AK Stl	12/01	9.13	BB-	104.0000	0.00	-	-	-
Pacefin	08/04	10.75	B-	99.2500	0.00	-	-	-

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.34
Prime rate	8½	Two month	-	Three year	5.31
Broker loan rate	7⅝	Three month	5.02	Five year	5.36
Fed.funds	5⅝	Six month	5.14	10-year	5.41
Fed.funds at intervention	-	One year	5.20	30-year	5.62

INTERNATIONAL BONDS

Aug 12	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	107.6500	4.64	+0.03	-0.21	+0.14
Spain	01/07	5.750	AA	107.4700	4.65	+0.04	-0.19	+0.15
Philip Morris	03/04	5.375	A	101.5200	5.05	-	-	+0.76
Finland FRN	09/02	3.629	AA	100.5975	3.59	+0.03	-0.19	-0.51
EURO FFR								
Austria	01/04	5.500	AAA	105.5800	4.32	+0.04	-0.21	+0.05
Abbey Nat	02/04	6.000	AA	107.6000	4.41	+0.03	-0.23	+0.14
Cred Foncier	02/04	9.125	A	121.3000	4.84	+0.04	-0.19	+0.37
SCIF FRN	12/01	3.693	AA-	99.8944	3.86	+0.03	-0.19	-0.12
EURO LIRA								
EIB	02/07	7.000	AAA	115.8000	4.70	+0.02	-0.25	-0.04
Abbey Nat	02/02	6.800	AA	107.3766	4.47	+0.02	-0.17	+0.07
Walt Disney	08/00	8.825	A	107.1500	4.49	+0.06	-0.12	+0.21
EIB FRN	03/01	4.692	AAA	100.0328	4.07	+0.02	-0.12	-0.22
EURO £								
EIB	12/07	7.625	AAA	111.5837	5.96	-0.01	-0.23	+0.37
Dresdner Bk	12/07	7.750	AA-	108.6203	6.48	-0.01	-0.23	+0.89
British Gas	03/00	7.625	A+	100.4498	7.28	-0.07	-0.38	+0.69
Abbey Nat FRN	02/02	7.650	AA	99.9434	6.03	-0.06	-0.37	+0.02
EURO $								
EIB	04/07	7.250	AAA	108.8467	5.77	+0.06	-0.09	+0.37
ABN Amro	08/07	7.125	n/a	105.5133	6.30	+0.08	-0.02	+0.90
Quebec	01/07	7.000	A+	105.6886	6.13	+0.06	-0.08	+0.73
Citicorp FRN	02/04	5.754	A+	100.5708	5.51	+0.04	-0.08	+0.14
EURO C$								
Bayer L-Bk	08/04	9.500	AAA	117.3372	5.97	+0.02	+0.24	+0.16
Toronto	05/04	8.500	AA+	112.1197	5.95	+0.02	+0.28	+0.14
Bell Canada	07/99	10.625	A+	104.1372	5.79	-0.01	+0.16	+0.66
Deutsche B FRN	09/02	5.875	AAA	100.0194	5.87	+0.01	+0.22	+0.16
EURO YEN								
World Bank	03/02	5.250	AAA	115.7268	0.80	-	-0.16	-0.01
Spain	03/02	5.750	AA	117.8000	0.77	-0.03	-0.20	-0.04
Cred Foncier	08/02	4.750	A	113.4571	1.26	-	-0.16	+0.45
Italy FRN	07/99	0.727	AA	100.2841	0.12	-	-0.05	-0.30

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Govt. Securities — UK Indices

Price indices UK Gilts	Wed Aug 12	Day's change %	Tue Aug 11	Accrued interest	xd adj. ytd
1 Up to 5 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 5-15 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 Over 15 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 Irredeemables	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 All stocks	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Index-linked					
6 Up to 5 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 Over 5 years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8 All stocks	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yield columns (Low coupon yield, Medium coupon yield, High coupon yield; Aug 12, Aug 11, Yr. ago): [illegible]

Average gross redemption yields are shown above. [illegible]

FT Fixed Interest Indices

Govt. Secs. (UK), Fixed Interest: [illegible]

© FTSE International Ltd 1998. All rights reserved. [illegible]

UK GILTS PRICES

[illegible]

● 'Tap' stock. [illegible]

Yen gains on talk of intervention

MARKETS REPORT

By Simon Kuper

The yen rallied from its eight-year low yesterday as traders decided that Japan might be close to intervening to support it. Many were happy to take profits on the currency's slide of the last fortnight.

The threats of intervention from almost every Japanese official known to the markets have become too loud to ignore. Keizo Obuchi, Japan's prime minister, said yesterday that the yen's fall was unfavourable, while Eisuke Sakakibara, vice finance minister for international affairs, said Japan would adopt an aggressive stance on foreign exchange movements.

The market took particular note of Mr Sakakibara's comments. He is known as "Mr Yen" for his penchant for talking up the yen in the early 1990s, and his silence over the yen's slide this month had been taken by some as a sign that Japan might be abandoning intervention.

It was also announced yesterday that Kiichi Miyazawa, Japan's new finance minister, and Robert Rubin, US treasury secretary, would meet in early September. Some think that the two men will discuss whether or not to intervene for the yen. And ahead of the meeting, talk about intervention is likely to increase, in itself buoying the yen, said currency strategists yesterday.

The rebound in the yen helped most other Asian currencies. However, fears remained that the yen's slide might prompt China to devalue. Zhou Gang, the Chinese ambassador to India, said yesterday that Beijing might have to rethink its "no devaluation" policy if Japan's currency kept falling. However, one view is that China simply wants to keep the threat of devaluation alive because that gives it influence over the US.

The yen rose Y1.1 against the dollar to close in London at Y146.0.

The Bank of Canada intervened yet again in support of its currency.

■ The pound fell as traders concluded that UK interest rates had peaked. Average earnings rose by 5.0 per cent in the year to the second quarter – a robust pace, but slower than expected. Philip Shaw, chief economist at Investec in London, said the market took the earnings data particularly seriously because it was these that had prompted the June interest rate rise. He said annual earnings growth looked as though it would soon fall to the Bank's tolerance level of 4.5 per cent.

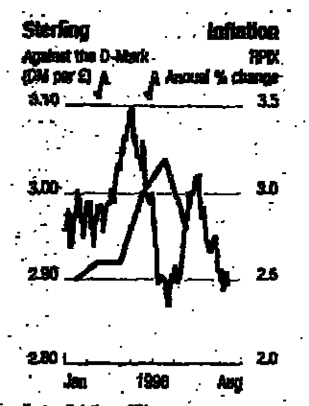
The minutes of the Bank of England's monetary policy committee meeting for July provided mixed evidence for the notion that rates had peaked. On the one hand, all nine committee members voted against a rate rise. On the other, some members said they favoured an interest rate rise at some later point. Furthermore, a fall in unemployment suggested that inflation might not die.

On balance, however, the prospects of a peak in rates dragged sterling down 1.7 pfg to DM2.892 against the D-Mark, while short sterling futures contracts rose. The June 1999 contract gained 7 basis points and now prices in base rates below 7 per cent, compared with 7.50 per cent today.

■ The dollar seems to be blithely ignoring the ups and downs of Wall Street. Yesterday it dropped 0.6 pfgs against the D-Mark to DM1.775 even though the stock market rallied. Since Wall Street began to slide last month, the dollar has not left its well-trodden range of recent months against the D-Mark.

Ravi Bulchandani, senior currency economist at Morgan Stanley in London, explains: "The currency market has taken the view that a stock-market induced recession in the US is unlikely." Furthermore, there is not a vast amount of foreign money that could leave Wall Street. Mr Bulchandani says foreign investors have long felt that the Dow was overvalued, so most recent share-buying has been done by Americans saving for old age.

The big international capital flows of recent weeks have been out of emerging market stocks and bonds, notes Mr Bulchandani. And much of that money has gone back to the US, to be converted into dollars.



Source: Datastream/ICV

■ POUND IN NEW YORK

Aug 12	—Latest—	– Prev. close –
£ spot	1.8285	1.8320
1 mth	1.8256	1.8290
3 mth	1.8203	1.8239
1 yr	1.8009	1.8035

■ OTHER CURRENCIES

Aug 12	£	$
Czech Rp	51.9213 - 52.0200	31.8770 - 31.9180
Hungary	358.483 - 359.061	220.080 - 220.310
Iran	4889.40 - 4898.40	3000.00 - 3000.80
Kuwait	0.5002 - 0.5007	0.3071 - 0.3072
Peru	4.8172 - 4.8242	2.9575 - 2.9600
Poland	5.6927 - 5.7043	3.4950 - 3.5000
Russia	10.3184 - 10.3482	6.3350 - 6.3500
U.A.E.	5.9823 - 5.9853	3.6728 - 3.6730

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
95375	0.085			0.080		
95500	0.040	0.675	0.720	0.160	0.005	0.010
95625	0.020			0.265		

Est. vol. total, Calls 11793 Puts 8572. Previous day's open int., Calls 112172 Puts 130527

COMMODITIES & AGRICULTURE

Sumitomo offers to settle New York suits

By Nikki Tait in Chicago and Kenneth Gooding in London

Sumitomo Corporation, the Japanese trading group, took another big step yesterday towards wiping the slate clean after the copper market fraud committed by Yasuo Hamanaka, its chief trader. It agreed to pay $99m to settle six class action lawsuits filed in New York.

The proposed arrangement, which is subject to court approval, comes three months after Sumitomo agreed to pay $133m to settle claims by market regulators in the US and the UK.

The $125m fine paid to the US Commodity Futures Trading Commission was the largest civil penalty imposed by any US-regulatory agency and the $8m paid to the UK's Financial Services Authority was also unprecedented.

Sumitomo, which claims Mr Hamanaka's unauthorised trading in the mid-1990s cost it $2.6bn, still faces class action suits filed in Californian courts. It said yesterday it was "still negotiating with the Californian parties" and would offer no further comment.

Sumitomo said that, in spite of the proposed settlement of the New York class actions, it vigorously denied the plaintiff's allegations and did not admit any wrongdoing or liability.

The New York class action suits were brought against Sumitomo on behalf of all parties who traded copper futures or options on Comex, part of the New York Mercantile Exchange, between June 24 1993 and June 15 1996.

A portion of the settlement sum – $18m – will come from a $25m restitution fund Sumitomo set up in the US in May, so the net additional cost to the Japanese group is about $81m. The settlement approval process is likely to take several months.

Sumitomo said the New York settlement would have "no material impact" on its 1998-99 financial results.

In March, Mr Hamanaka was sentenced by a Tokyo judge to eight years in prison for fraud and forgery.

Sumitomo has filed civil and criminal complaints against Mr Hamanaka, and Kenji Miyahara, president, said yesterday: "We will continue to seek recovery from anyone who assisted Mr Hamanaka in defrauding the company."

Regulators on both sides of the Atlantic said in May they were continuing investigations into other companies that might have been involved in the copper market scandal.

In its detailed explanation of how and why Mr Hamanaka manipulated the international copper market, the CFTC said the Japanese trader joined forces with a newly-formed New York merchant to push copper prices artificially high.

Prices hit by big US crop forecasts

By Nikki Tait in Chicago

Harvesting maize in Illinois: US production this year is estimated at 9.59bn bushels Glyn Genin

US grain and oilseed prices fell yesterday after the US Department of Agriculture's monthly crop progress report indicated that the nation could expect record soyabean production this year, *and the second biggest* maize crop.

Despite the maverick weather conditions in some *parts of the country*, USDA forecast soyabean production at 2.82bn bushels, a record high. This was virtually unchanged from the previous estimate of $2.83bn bushels, and would beat the 1997-98 production figures, already at high levels, of 2.77bn bushels.

Moreover, many analysts suspect the recent weather conditions in key growing areas of the Midwest, coupled with some fairly benign forecasts, have already made the USDA soyabean estimates overly cautious.

"I think it's lower than we'll end up with at the end of the year," suggested Brian Scott, from R.J. O'Brien, at a Chicago Board of Trade briefing yesterday.

Corn – or maize – production, meanwhile, is now estimated at 9.59bn bushels. This is below the previous forecast of 9.62bn bushels, but up 2 per cent on last year's 9.37bn bushels and 3 per cent higher than in 1996.

Even on the wheat side, where plantings were reduced this year because of low prices, total production is put at 2.55bn bushels, 1 per cent higher than in 1997.

USDA said that while rain early in July added to the problem of saturated fields to the east and south of the corn belt, the weather in the main grain-growing areas had been favourable.

The Pacific north-west also had "ideal" conditions, and although the cool temperatures in California delayed crop growth early on, this picked up later in July.

By contrast, parts of the south suffered from drought and extreme heat. In crop production terms, this was most noticeable on the cotton front, where USDA is forecasting a 24 per cent drop in output this year to about 14.3m bales.

It said irrigated fields in Texas, which suffered the worst of the heat, were "showing good progress", but about 40 per cent of the total acreage is in "very poor to poor" condition.

The USDA report was much as analysts had predicted but it did nothing to dispel the bearish sentiment that has hung over grain and oilseed prices, as prospects of strong US production have coincided with a good European harvest.

At midday, the September corn futures contract on the Chicago Board of Trade was 4 cents lower at $2.10 a bushel. September soyabeans were down by almost 9 cents, at $5.342 a bushel.

Oil sees return to stability

MARKETS REPORT

By Paul Solman and agencies

Reports that US gasoline stocks had fallen and that Venezuela had cut its crude production helped world oil prices rebound from 10-year lows reached on Tuesday.

US gasoline inventories fell by a higher than expected 4m barrels to 215m in the week ending August 7, though they remained 24m barrels higher than at the same time last year.

However, traders attributed yesterday's higher prices to a general return to stability on the world's capital markets rather than any improvement in oil market fundamentals.

The benchmark Brent blend for September delivery was $11.91 a barrel in late trading on London's International Petroleum Exchange, compared with Tuesday's close of $11.78.

Gold was fixed at $285.05 an ounce in London, compared with the morning fix of $285.50. Poland's central bank increased its gold reserves by 2.4m ounces, or 74.5 tonnes, in May, according to figures from the International Monetary Fund.

On the London Metal Exchange, nickel managed to recover from Tuesday's 4½-year low to finish $60 higher at $4,150 a tonne. Other base metals were range-bound.

Also yesterday, the Bolivian government said a significant natural gas field had been discovered in the southern part of the country that would help satisfy exports to Brazil. The government said the San Alberto X field had reserves of 1,000bn cubic feet of natural gas a day and would produce 35.5m cubic feet of natural gas a day.

The fields are owned by Petrobras Bolivia, Petrolera Andina and Total Exploration Bolivie. Petrobras is owned by the Brazilian state oil company.

The reserves were found after eight months of exploration and an investment of $20m. The fields are located in southern Bolivia near the border with Argentina.

With this find, the government is assured sufficient gas to feed into the pipeline that is being built between Bolivia and Brazil and is expected to go into production early next year.

The 1,900 mile pipeline, beginning in Santa Cruz, Bolivia and ending in the Brazilian state of Rio Grande do Sul, is expected to cost $1.8bn and should move 30m cubic metres of gas a day.

NEWS DIGEST

INDONESIAN MINING

Strike shuts Grasberg gold and copper facility

The world's largest gold and copper mine has shut down because of a strike by part of its labour force. The Indonesian affiliate of US group Freeport McMoRan Copper & Gold, which runs the mine, said yesterday that up to 4,000 workers had walked off the job on Tuesday. The workers are mostly contract labourers in non-mining operations, such as offices and transport.

Management at the Grasberg mine, located in a remote part of Irian Jaya, 2,000 miles from Jakarta, shut down the mill shortly afterwards but the company insisted that stock was sufficient to maintain ore shipments at planned levels. The company would not give details on negotiations with the workers. Antara, the Indonesian state news agency, reported that workers wanted a pay increase but the company said their main demand was obtaining employee status and the perks that entailed.

A $1bn expansion at the Grasberg mine has boosted throughput capacity of ore from 125,000 tonnes a day to 160,000 tonnes a day, but a slump in copper and gold prices has forced the company to reduce output. Freeport warned of a fall in profits for this year and Standard & Poor's downgraded its bonds. The rating agency also cited increased political risk, as the mine is partially owned by former president Suharto, his eldest son and a close associate.

The work stoppage comes in the wake of a withdrawal of 272 troops from the area but the company denied suggestions of a link. In other parts of Indonesia, the military has tended to interfere in labour disputes on the employers' behalf and Freeport has been accused of hiring soldiers to fend off disputes with indigenous tribes in the area. Sander Thoenes, Jakarta

SILVER

Speculators switch from gold

More evidence that precious metals speculators are turning their attention to silver rather than gold was provided yesterday by London Bullion Market Association statistics. These showed the value of daily gold turnover in July in London, the international settlement centre for gold bullion, fell to $8.8bn, the lowest since the LBMA started to collect statistics in October 1996. This was nearly 27 per cent down from the daily average of $12bn in July last year and nearly 14 per cent lower than the average of $10.2bn seen in June 1998.

However, the daily volume of gold transferred, at 30m troy ounces, was not the lowest on record – only 27.5m ounces a day were transferred in October 1996 and only 29.8m in December that year. Nevertheless, the July total was 19 per cent below the 37m ounces transferred each day in July 1997 and 14 per cent below the 35m ounces recorded for June this year.

Meanwhile, silver volumes recovered from depressed June levels, showing a 7 per cent increase from 217.9m to 233.5m ounces a day. This was nearly 14 per cent below the 270.6m ounces for July last year, however. The value of silver transferred daily rose to $1.3bn, from $1.1bn in June and $1.2bn in July 1997. Kenneth Gooding

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1300.5-01.5	1323-24
Previous	1292-93	1317-18
High/low		1333/1323
AM Official	1308-08.5	1327.5-28.0
Kerb close		1327-8
Open int.	n/a	
Total daily turnover	n/a	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1145-65	1170-75
Previous	1145-55	1165-75
High/low		1175/1170
AM Official	1143-45	1167-70
Kerb close		1175-80
Open int.	n/a	
Total daily turnover	n/a	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	533-4	543-3.5
Previous	538-9	545-6
High/low		548/541
AM Official	537-37.5	547-48
Kerb close		547-8
Open int.	n/a	
Total daily turnover	n/a	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4035-45	4105-10
Previous	4035-45	4100-10
High/low		4145/4090
AM Official	4055-60	4115-20
Kerb close		4140-45
Open int.	n/a	
Total daily turnover	n/a	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5755-65	5850-60
Previous	5760-70	5640-50
High/low		5690/5630
AM Official	5785-95	5680-85
Kerb close		5630-40
Open int.	n/a	
Total daily turnover	n/a	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1019-20	1039-39.5
Previous	1025.5-26.5	1046-47
High/low		1049/1037
AM Official	1022-22.5	1041.5-42.0
Kerb close		1043-5
Open int.	n/a	
Total daily turnover	n/a	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1597-98	1619-20
Previous	1593-94	1615-16
High/low		1632/1616
AM Official	1611-12	1633-34
Kerb close		1619-20
Open int.	n/a	
Total daily turnover	n/a	

■ LME AM Official £/$ rate: 1.6381

LME Closing £/$ rate: 1.6295

Spot: 1.6297 3 mths: 1.6218 6 mths: 1.6141 9 mths: 1.6071

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	72.60	+0.90	72.60	72.30	268	1,258
Sep	72.75	+0.90	73.20	72.00	10,723	22,939
Oct	73.05	+0.90	73.15	73.00	174	2,312
Nov	73.25	+0.80	73.60	73.40	22	1,603
Dec	73.55	+0.80	74.00	73.00	2,985	14,061
Jan	73.90	+0.80	–	–	15	1,653
Total						

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	283.30-283.80		
Opening	285.00-285.30		
Morning fix	285.50	175.014	423.910
Afternoon fix	285.05	174.877	422.729
Day's High	286.20-286.50		
Day's Low	282.60-283.00		
Previous close	284.50-285.00		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.82	6 months	4.11
2 months	4.71	12 months	4.05
3 months	4.64		

Silver Fix	p/troy oz.	US cts equiv.
Spot	321.88	524.5

Silver Lending Rates

1 month	3.00	6 months	1.50
2 months	2.50	12 months	1.25
3 months	2.25		

Gold Coins	$ price	£ equiv.
Krugerrand	284-288	174-177
New Sovereign	66-70	41-43

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	282.8	–1.7	287.0	282.3	174	1,005
Oct	284.6	–1.2	288.4	284.0	977	11,147
Dec	286.8	–1.2	290.2	286.2	27,494	103.8k
Feb	288.6	–1.2	291.7	288.0	136	13,892
Apr	290.5	–1.2	291.7	291.7	11	9,166
Jun	292.4	–1.2	295.3	293.0	106	12,719
Total					30,558	185,167

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	374.4	–2.7	380.5	374.0	675	8,582
Jan	374.7	–2.7	–	–	2	–
Apr	374.7	–2.7	–	–	1	22
Jul	374.7	–2.7	–	–	22	5
Total					677	8,435

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	290.00	–2.00	291.00	288.25	73	2,750
Dec	280.00	–2.50	280.00	280.00	2	1,045
Mar	275.00	–2.50	281.00	281.00	–	23
Total					76	3,818

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	514.0	–3.8	525.0	512.0	12,812	39,366
Dec	518.0	–3.6	527.5	516.0	2,371	27,733
Jan	519.5	–3.6	–	–	–	30
Mar	520.0	–3.6	531.0	517.0	87	5,587
May	521.7	–3.6	529.0	529.0	16	1,712
Jul	523.4	–3.6	533.0	529.0	18	2,531
Total					15,383	82,376

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Sep	12.83	+0.07	12.97	12.71	68,744	100.7k
Oct	13.23	+0.08	13.33	13.10	35,596	81,397
Nov	13.60	+0.07	13.68	13.50	8,876	39,168
Dec	13.95	+0.10	13.99	13.85	14,884	51,280
Jan	14.24	+0.09	14.30	14.20	4,059	33,194
Feb	14.55	+0.12	14.58	14.49	1,893	16,703
Total					145,667	493,219

■ CRUDE OIL IPE ($/barrel)

	6pm price	Day's change	High	Low	Vol	Open int
Sep	11.87	+0.23	11.90	11.71	16,104	41,151
Oct	12.10	+0.20	12.14	11.95	22,263	65,422
Nov	12.42	+0.11	12.50	12.32	1,994	23,047
Dec	12.80	+0.18	12.80	12.65	1,632	39,358
Jan	12.94	+0.10	13.00	12.91	208	29,220
Feb	13.11	–	13.22	13.11	212	17,634
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Sep	34.35	+0.33	34.70	33.95	16,033	44,205
Oct	35.90	+0.29	36.20	35.55	7,438	27,734
Nov	37.60	+0.24	37.70	37.25	2,399	18,309
Dec	39.35	+0.24	39.62	39.00	4,843	24,369
Jan	40.65	+0.19	40.80	40.30	1,412	23,942
Feb	41.60	+0.19	41.80	41.45	1,233	14,516
Total					37,278	185,074

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	99.75	–	102.00	100.25	7,709	7,007
Sep	104.75	+0.50	106.25	104.25	12,808	35,801
Oct	109.75	–	111.00	109.00	4,669	21,353
Nov	113.75	–0.25	114.75	113.25	1,292	14,334
Dec	117.25	–0.25	118.50	116.75	3,058	38,430
Jan	120.25	–0.25	121.00	120.00	778	12,766
Total					30,202	167,141

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	11.350	+0.560	11.500	10.850	280	2,835
Oct	11.800	+0.260	11.900	11.700	40	3,455
Total					856	23,675

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Sep	1.825	+0.013	1.840	1.785	37,728	53,416
Oct	1.865	+0.009	1.875	1.830	13,048	33,699
Nov	2.130	–0.008	2.150	2.110	8,162	25,608
Dec	2.415	–0.006	2.434	2.400	3,519	26,376
Jan	2.530	–0.009	2.554	2.525	3,985	25,076
Feb	2.455	+0.001	2.470	2.440	2,039	16,264
Total					73,133	273,108

■ UNLEADED GASOLINE

NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Sep	40.80	+0.79	41.20	40.31	15,604	41,470
Oct	40.65	+0.49	41.00	40.40	8,521	21,861
Nov	41.15	+0.24	41.40	40.95	1,076	5,123
Dec	41.90	+0.19	42.10	41.65	328	6,208
Jan	42.60	–	42.60	42.55	408	3,380
Feb	43.40	–	43.40	43.40	50	1,767
Total					26,372	85,706

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	70.75	+0.50	71.00	70.50	49	202
Nov	73.05	+0.80	73.05	72.75	369	3,407
Jan	75.00	+0.75	75.00	74.75	108	1,821
Mar	77.00	+0.75	77.00	76.75	80	950
May	79.00	+0.75	79.00	78.75	160	722
Total					768	7,147

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	259.25	+5.50	259.50	252.25	5,457	39,503
Dec	275.75	+5.00	276.00	268.50	11,452	57,317
Mar	291.00	+4.75	291.25	284.00	1,336	19,520
May	299.00	+4.50	298.50	293.50	73	3,590
Jul	308.00	+3.75	308.50	303.00	365	7,419
Sep	316.00	+3.50	–	–	15	336
Total					18,686	127,688

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	209.25	–4.75	214.00	209.00	13,144	76,065
Dec	218.75	–4.00	222.75	217.50	29,085	157,510
Mar	230.00	–3.75	233.75	229.25	4,684	40,905
May	237.50	–3.00	238.50	236.50	904	12,538
Jul	243.00	–3.00	243.75	242.25	1,491	17,344
Sep	247.25	–2.50	248.00	248.25	90	1,769
Total					49,783	313,114

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	69.70	–	70.00	70.00	10	41
Nov	72.75	–	73.25	73.00	43	905
Jan	74.75	–	75.25	75.00	80	317
Mar	76.60	–	–	–	–	85
May	77.60	–	–	–	–	23
Total					133	1,381

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	559.50	–5.50	566.00	558.00	2,614	2,279
Sep	536.50	–7.50	540.00	531.00	5,675	16,095
Nov	532.50	–7.75	539.50	528.00	25,812	81,836
Jan	543.25	–8.00	551.00	538.50	1,822	11,954
Mar	553.75	–8.00	557.00	549.50	1,026	10,275
May	561.75	–7.75	564.50	558.50	272	2,744
Total					37,858	134,049

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	23.26	+0.09	23.25	22.89	192	2,872
Sep	23.34	+0.11	23.35	22.93	2,612	26,862
Oct	23.45	+0.13	23.46	23.05	1,159	16,336
Dec	23.58	+0.11	23.62	23.15	7,807	44,463
Jan	23.73	+0.12	23.70	23.35	1,029	5,766
Mar	23.87	+0.13	23.80	23.50	421	7,216
Total					13,525	116,835

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	138.4	–5.6	143.0	137.5	3,256	5,042
Sep	138.8	–1.8	142.0	137.3	5,927	24,596
Oct	139.0	–2.4	139.8	137.2	1,398	20,257
Dec	140.9	–2.7	143.6	139.7	8,605	61,841
Jan	143.0	–3.1	144.7	142.0	1,486	10,556
Mar	147.0	–2.5	148.1	146.1	1,348	9,435
Total					22,481	139,808

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	80.0	–	–	–	–	3
Mar	112.5	–	–	–	–	–
Apr	163.0	–3.0	168.0	162.0	111	2,264
May	173.0	–3.0	–	–	–	29
Jun	183.0	–3.0	–	–	–	–
Total					111	2,264

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	780	+5	780	775	11	257
Oct	885	+4	880	880	10	494
Jan	930	+4	925	925	10	408
Apr	970	+5	–	–	–	200
Jul	880	+5	–	–	–	200
Total					26	1,694

	Close	Prev
BFI	780	783

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	423.00	–3.00	425.00	423.00	12	369
Dec	455.00	–5.00	457.00	453.00	24	239
Total					36	684

FUTURES DATA

All futures data supplied by CMS.

Tea from the Tea Brokers' Association Mombasa Less demand at progressively easier rates. Brighter BP1s declined 10-30 cents with mediums 10-20 cents easier. Lower mediums eased 5-15 cents with plainer sorts lower. Brighter liquoring and colour mediums PF1s were 10-35 cents easier. Lighter mediums depreciated 5-16 cents with lower mediums and plainer sorts 5-20 cents easier. Apart from a few selected lines of brighter liquoring teas which were dearer, P dusts and dust 1s were lower. Pakistan packers lent support but the Bazaar and Afghanistan were quiet. ● The nuts and seeds report was not available.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1051	–11	1058	1047	1,953	29,072
Dec	1082	–11	1089	1078	2,976	46,567
Mar	1106	–11	1110	1105	317	41,515
May	1122	–11	1126	1120	113	14,249
Jul	1138	–11	1148	1136	60	7,941
Sep	1154	–11	1159	1153	697	25,407
Total					6,616	171,484

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1537	–11	1545	1527	5,675	14,831
Dec	1572	–9	1579	1565	6,297	29,309
Mar	1613	–6	1618	1608	1,976	13,627
May	1640	–8	1638	1638	196	5,580
Jul	1667	–6	–	–	50	1,748
Sep	1694	–7	1695	1695	10	1,673
Total					14,253	73,747

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
Aug 11		
Daily	1265.41	1263.07

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1606	–11	1625	1587	1,974	16,361
Nov	1573	–7	1586	1554	2,063	12,687
Jan	1553	–5	1558	1535	333	2,367
Mar	1533	–5	1538	1525	29	1,660
May	1528	–5	1527	1525	35	250
Jul	1528	–5	1535	1535	–	82
Total					4,407	33,407

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	119.05	–5.40	125.50	118.75	8,527	9,571
Dec	116.00	–2.30	118.90	115.15	5,738	11,438
Mar	114.25	–1.00	115.50	113.75	539	5,107
May	114.75	–0.75	116.00	114.00	79	2,282
Jul	115.25	–0.50	115.00	115.00	24	1,056
Sep	116.00	–0.40	118.25	117.00	19	1,438
Total					15,915	31,146

■ COFFEE (ICO) (US cents/pound)

Aug 11		Prev. day
Comp. daily	102.22	106.19
15 day average	102.30	101.86

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	246.6	–4.6	253.0	246.5	1,936	21,891
Dec	248.7	–4.2	252.5	248.6	103	8,620
Mar	251.7	–4.3	255.9	251.8	209	7,790
May	255.4	–4.1	256.4	256.0	129	2,022
Aug	259.0	–4.0	259.3	259.3	5	1,300
Oct	259.0	–3.8	262.2	262.2	23	–
Total					2,382	40,310

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	9.23	–0.30	9.42	9.42	77	5,815
Oct	8.66	–0.39	8.95	8.62	18,775	81,105
Mar	9.05	–0.29	9.23	9.00	3,771	40,237
May	9.05	–0.29	9.20	9.03	258	6,805
Jul	8.90	–0.40	9.16	8.90	210	5,861
Oct	9.15	–0.30	9.31	9.15	639	8,619
Total					23,730	146,873

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	72.94	+1.48	73.40	72.30	1,041	4,923
Dec	71.97	+1.65	72.65	71.50	9,516	37,217
Mar	72.40	+1.59	73.00	71.90	2,051	16,010
May	72.90	+1.40	73.40	72.50	532	8,133
Jul	73.30	+1.07	74.20	73.20	883	4,678
Total					14,196	77,613

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	106.70	–0.10	112.00	106.40	1,572	12,813
Nov	109.70	–0.40	115.10	109.70	489	5,486
Jan	112.90	–0.10	114.75	113.00	258	2,535
Mar	115.80	–0.10	117.75	116.00	62	1,862
May	118.55	–0.05	120.00	120.00	10	679
Jul	121.30	–0.05	121.90	121.90	–	278
Total					2,461	23,746

VOLUME DATA

Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Aug 12	Aug 11	month ago	year ago
1535.1	1545.5	1539.0	1903.6

■ CRB Futures (Base: 1967 = 100)

Aug 11	Aug 10	month ago	year ago
202.60	208.08	–	–

■ GSCI Spot (Base: 1970 = 100)

Aug 11	Aug 10	month ago	year ago
139.68	141.32	150.71	194.43

LME WAREHOUSE STOCKS (tonnes)

Aluminium	–675	to	482,850
Aluminium alloy	+1,220	to	68,500
Copper	+725	to	288,325
Lead	–250	to	114,100
Nickel	–30	to	60,774
Zinc	+3,050	to	368,125
Tin	+105	to	6,225

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	60.225	–1.475	61.700	60.200	3,100	8,182
Oct	60.600	–0.925	61.850	60.150	7,839	43,056
Dec	61.950	–0.575	62.650	61.400	1,826	17,031
Feb	63.500	–0.550	64.150	63.850	1,053	11,153
Apr	65.025	–0.500	65.700	64.800	615	4,912
Jun	63.850	–0.500	64.300	63.500	96	1,018
Total					14,533	85,435

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	52.150	+0.925	52.200	51.500	1,512	3,518
Oct	44.075	+1.150	44.125	42.700	2,881	15,068
Dec	43.950	+0.700	44.000	42.850	1,447	6,827
Feb	47.675	+0.850	47.900	46.850	302	2,822
Apr	47.450	+1.050	47.450	46.400	33	639
Jun	55.300	+0.600	55.100	54.700	25	373
Total					6,201	31,459

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	65.925	+3.000	65.925	63.425	490	1,014
Feb	58.925	+2.975	58.950	58.150	574	2,584
Mar	59.200	+3.000	57.800	57.800	1	15
Total					1,067	3,597

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Sep	Dec	Sep	Dec
n/a				
n/a				
n/a				
■ COPPER (Grade A) LME	Sep	Dec	Sep	Dec
n/a				
n/a				
n/a				
■ COFFEE LIFFE	Sep	Nov	Sep	Nov
1550	62	70	6	47
1600	25	47	19	74
1650	7	32	51	109
■ COCOA LIFFE	Sep	Dec	Sep	Dec
1050	12	63	11	31
1075	3	49	27	42
1100	1	37	49	55
■ BRENT CRUDE IPE	Oct	Nov	Oct	Nov
1200	-	-	-	59
1250	45	-	-	84
1300	25	57	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$11.79-1.91	+0.185
Brent Blend (dated)	$11.27-1.32	+0.02
Brent Blend (Sep)	$11.82-1.87	-0.03
W.T.I.	$12.82-2.84x	-0.03

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$154-157	+1
Gas Oil	$101-104	
Heavy Fuel Oil	$60-62	
Naphtha	$121-124	+1
Jet fuel	$111-112	+0.5
Diesel	$110-111	

■ NATURAL GAS (Pence/therm)

Bacton (Sep)	11.25-11.35	+0.50

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

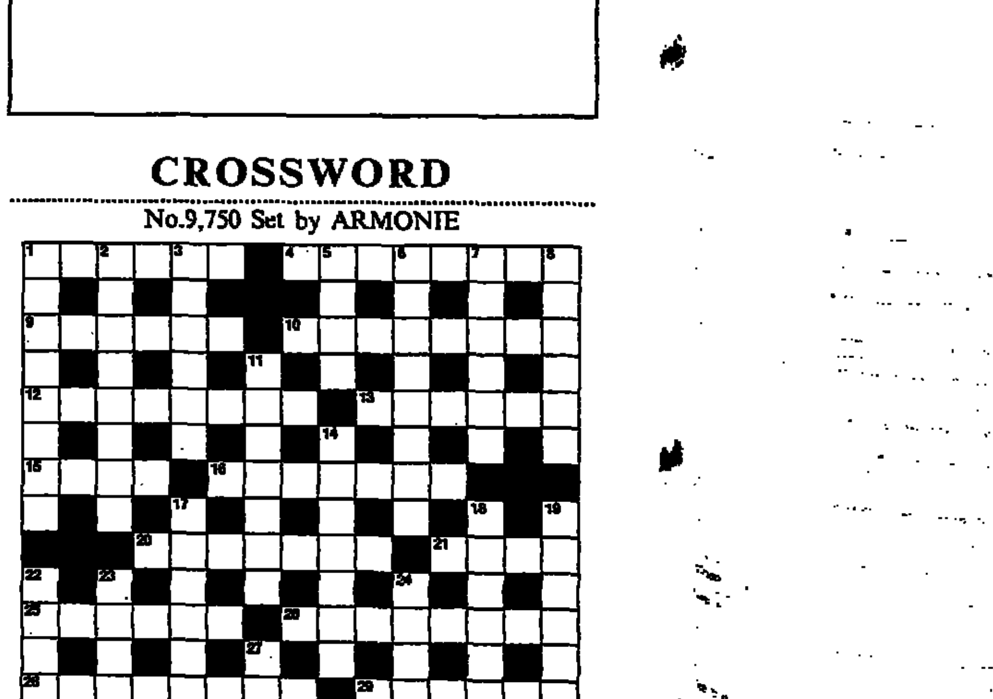
Gold (per troy oz)♣	$283.55	-1.20
Silver (per troy oz)♣	524.50c	+2.00
Platinum (per troy oz.)	$375.50	+0.50
Palladium (per troy oz.)	$289.00	+1.00
Copper	79.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	23.02r	
Tin (New York)	275.5	
Cattle (live weight)	88.93p	+1.07*
Sheep (live weight)	108.25p	+2.62*
Pigs (live weight)†	45.38p	-4.01*
Lon. day sugar (raw)	$218.40	-1.30
Lon. day sugar (wte)	$266.10	-0.70
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Sep)♥	46.25p	
Rubber (Oct)♥	46.75p	
Rubber (KL RSS No1)	276.00m	-1.00
Coconut Oil (Phil)§	645.0y	
Palm Oil (Malay.)§	605.0	-15.0
Copra (Phil)§	$332.5y	-2.5
Soyabeans (US)	151.0y	
Cotton Outlook'A' index	68.40	
Wooltops (64s Super)	300p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Aug/Sep. x Sep. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on sale of pigs sold.

JOTTER PAD

CROSSWORD

No.9,750 Set by ARMONIE



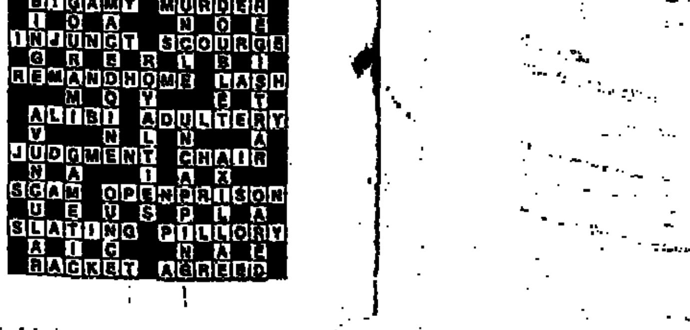
ACROSS

1 Rummage around for article in the smithy (6)
4 About to begin eating dead bird (8)
9 Use oriental maiden's trick (6)
10 Rest for swimmer having captured soldier (8)
12 Launch has reversing space in Devon (8)
13 There's nothing authentic about daughter in trouble (6)
15 They say massage is essential (4)
16 Shocking service leads to a scowl (7)
20 List the German channel swimmer (7)
21 Cross over the threshold (4)
25 Tailor played bridge (6)
26 Obtaining a provision of clothing (8)
28 Happy to accept permit for horse (8)
29 Important game swings back to the toff (6)
30 A symbolic system or concept covering volunteers (8)
31 New anchor for the ferryman (6)

DOWN

1 Writer could be in the deep (8)
2 Sally cultivated pear tree (8)
3 Dark toilet in rebuilt gym (6)
5 Nobleman with a yen to leave before time (4)
6 Show mock surprise at national emblem (8)
7 Fruit remains important (6)
8 The endless stream of excitement .... (6)
11 .... the mountain let cascade (7)
14 Pardon for a woman keeping a hideaway (7)
17 Outstare queer fish (8)
18 Intimidate one doing without weapon (8)
19 It's proper in good French seaside resort (8)
22 Soldier loses love for battle-axe (6)
23 Non-drinker swallows effective medicine (6)
24 Burn most of the grain found in school (6)
27 Extremely old card game (4)

Solution 9,758



هكذا مرحل

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

Royal Bk of Canada O/S Fd Mgrs Ltd

BT Fund Managers (Ireland) Ltd (a)

Lazard Investment Funds Ltd - Contd.

Baring Mutual (Ireland) Ltd

Bear Stearns Asset Mgt (Ireland) Ltd

Blackstone Franks Managers Ireland Ltd

Swiss Life Investment Fund – Protect (a)

Fidelity Investments Cash Fund PLC

Deutschemark Fund	—	3.37
Sterling Fund	—	7.69
United States Dollar Fund	—	5.54

For Fleming Private Fund Plc see Ireland ISA

Foreign & Colonial Emerging Markets Ltd

Emerging High Yield Inv Fd $9.35 9.45 —

Foreign & Colonial Emerging Markets Ltd

F & C Romanian Inv Co. $8.37 —

Formosa High Tech Fund

NAV $8.17 —

Framlington Investment Mgmt (Ireland) Ltd

Magnum $71 1580 —

Tilney (Ireland) Ltd

20/22 Lower Hatch Street, Dublin 2 00 3531 7805073

US Mid Cap F 5 514 -0.300 —

IRELAND (REGULATED)(**)

ABN AMRO Global Liquidity Funds Plc (a)

Frank Russell Investments (Ireland) Ltd

US Equity A	$11.156	—	—
US Equity Sovereign	$11.241	—	—
US Equity P	[illegible]	—	—

IRELAND (FSA RECOGNISED)

Aberdeen Asset Management (Ireland) Ltd

Ulster Bank Investment Services

The Winter Investment Company PLC

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

ABSA Offshore Fund Managers (Jersey) Ltd

AIB Govett Management (Jersey) Limited

LUXEMBOURG (FSA RECOGNISED)

ABN AMRO Funds (a)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's

American Phoenix Investment Portfolios (x)
13 rue Goethe, L-1637 Luxembourg 00 352 404848211

[illegible]

Bank Von Ernst & Cie AG
Marktgasse 63/65, 3001 Berne, Switzerland 0041 313299111

[illegible]

For Banque Indosuez see Credit Agricole Indosuez

Barclays Diversified Portfolio (x)

[illegible]

Foreign & Colonial Portfolios Fd Sicav(x)
47 Boulevard Royal, L-2449 Lux 00 352 4640101

[illegible]

Frostmaster I (n)
872 rue de Waalhof, Luxembourg 00 352 43867250

[illegible]

GT Global
(44) 171 710 4567 London (852) 2842 7200 Hong Kong

[illegible]

HSBC Investment Funds Luxembourg SA (x)

[illegible]

JP Morgan

[illegible]

Morgan Stanley Sicav
C/O First European Transfer Agent S.A.
11 Boulevard Grand-Duchesse Charlotte
L-1331 Luxembourg (352) 254701 511

[illegible]

ACM Offshore Funds - Contd.

[illegible]

Credit Suisse Asset Mgmt Funds - Contd.

[illegible]

Merrill Lynch Asset Management - Contd.

[illegible]

UBS AG - Contd.

[illegible]

Friends Provident International

[illegible]

OFFSHORE INSURANCES

[illegible]

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

[illegible]

هكا امن الاصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

ENGINEERING, VEHICLES - Continued

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

HOUSEHOLD GOODS & TEXT - Continued

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL, EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column only as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formats.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited

FT Free Annual Reports Club

FT Company Focus / Focus Plus

FT Cityline

LONDON STOCK EXCHANGE

Ferment of figures leaves FTSE 100 floundering

MARKET REPORT

By Peter John

A big day for data left the London equity market wallowing yesterday.

Punch-drunk from a heavy battering inspired by a tumbling yen and sliding UK business confidence, the FTSE 100 index staggered around with little obvious inspiration yesterday.

Footsie opened up 38 points and hit its high of the day with a rise of 61 to just under 5,500 a couple of minutes later. That followed Tuesday's 112-point fall on the Dow Jones Industrial Average.

But the index's movements seemed to bear little relation to the flow of news. Footsie suffered an early morning reversal, hitting a low for the day of 5,403.6, down 29.2, despite the latest average earnings figures showing that growth was down to 5 per cent from 5.4 per cent.

Recovery started after a mixed quarterly inflation report from the Bank of England. The Bank admitted *its projection for the* short-term course of inflation was higher than in its May report, but it was alive to the threat of recession.

The closing Footsie gain of 29.4 at 5,462.2 was both a "dead cat bounce" according to the bears and "a sign of healthy resilience" if you were one of the bulls.

Richard Jeffrey, the pessimistic Charterhouse strategist, said: "The performance of the market, against a reasonably favourable European *backdrop, has been* very uncertain and London is showing the potential for further weakness."

He said wage inflation would remain a problem because of the high level of vacancies and since inflation remained "worrying".

However, one senior sales trader said Tuesday's fall was not backed by genuine selling pressure and yesterday's trading gave cause for hope.

"I am not saying we have seen the worst of it but we are not going down in a straight line and the resistance levels have proved *themselves. We bounced* decisively off 5,400," he said.

He added that the evidence of directors buying *their own company shares,* cited by the latest Merrill Lynch survey, was an encouraging signal. And he said several fund managers had reacted to the yield ratio – the relationship between bond and equity dividend yields and a key pointer to asset allocation decisions. The ratio fell to its lowest level for six years because recent rises in gilt prices had coincided with sharp falls in equities.

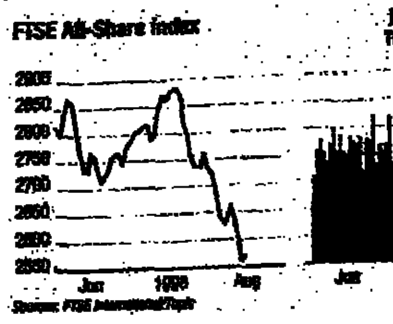
Historically, institutions have tended to buy when the ratio falls below 2 although the equation has been skewed by the removal of *dividend tax credits* in last year's Budget.

Elsewhere in the market, the FTSE 250 index rose 11.4 to 5,213.7 but the SmallCap was still out of favour. It shed 8.0 to 2,359.7.

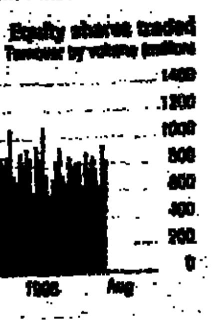
There was some rotation as sectors heavily sold since the peak on July 20 were bought back. Chemicals, off 17 per cent since then, rose 2 per cent yesterday.

Turnover at 6pm reached 833.2m shares with activity firmly in favour of the FTSE 100 because of continuing heavy trade in BP and Shell Transport following Tuesday's news that BP is taking over Amoco. Blue-chip stocks accounted for 60 per cent of the day's trade.

FTSE All-Share index



Equity shares traded Turnover by volume (million)



Source: FTSE International/Topic

Indices and ratios

FTSE 100	5462.2	+29.4	FT 30	3515.7	+12.5
FTSE 250	5213.7	+11.4	FTSE Non-Fins p/e	21.74	21.18
FTSE 350	2630.0	+12.8	FTSE 100 Fut Sep	5485.0	+50.0
FTSE All-Share	2589.15	+11.09	10 yr Gilt yield	5.44	5.85
FTSE All-Share yield	3.09	3.11	Long gilt/equity yld ratio	1.82	1.89

Best performing sectors

1 Chemicals +2.2
2 Telecommunications +1.8
3 Banks, Retail +1.4
4 Retailers, Food +1.3
5 Pharmaceuticals +1.2

Worst performing sectors

1 Oil Exploration & Prod -3.0
2 Gas Distribution -2.0
3 Electronic & Elect Equip -1.8
4 Distributors -1.4
5 Insurance -1.2

Retailer enjoys price rise

COMPANIES REPORT

By Joel Kibazo and Martin Brice

A fresh wave of bid speculation sent Selfridges soaring after property group British Land acknowledged building up a 3.1 per cent stake in the UK retailer.

The shares jumped 17 to 221½p, making it one of the best performers in the FTSE 250. However, the view from several analysts was that British Land had made the move as a way of getting into what it saw as an undervalued property asset.

Nick Bubb at SG Securities said: "British Land has the fire power to make a bid for this group. Their management is very shrewd, but I think this stake is no more than a trade investment."

Selfridges was demerged from Sears on July 20 and moved strongly ahead on takeover talk. The stock surrendered most of those gains in the recent malaise over the retail sector.

Mr Bubb believes the *shares are overvalued and* suggested investors should view the renewed strength as a selling opportunity.

British Land shares were in demand yesterday, hardening 6 to 566p while Sears improved 3½ to 203p.

Charter, which has suffered with many of its peer group from fears of Asian turbulence and the strength of sterling, bounced off its 52-week low as it rose 8¼ to 570½p.

Interest was increased by the realisation that the welding and rail-track equipment maker, had received an approach for its specialised engineering division.

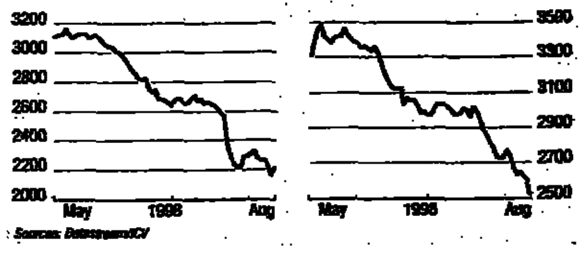
The company is in its closed season ahead of the release of interim figures on September 8. However, sources said an offer of about £240m was made and subsequently rebuffed.

One analyst said: "The shares look exceptionally cheap by any yardstick." However, he added that investors do not yet know how Charter, which has reshaped itself in recent years, will trade in its new shape during an economic downturn.

Nycomed Amersham was one of the best performing FTSE 100 stocks as the market responded to Tuesday's first-half figures that were in line with expectations. The shares gained 19 to 414p.

SG Securities favours the stock, however Dresdner Kleinwort Benson is cau*tious and was reported to* prefer SmithKline Beecham which closed 3 up at 662p.

Best and worst performing FTSE sectors



Source: Datastream/ICV

Shire Pharmaceuticals moved strongly ahead gaining 39½ or 12.3 per cent to *362½p, after it announced* interim profits ahead of expectations and reassured the market about supply problems for its drugs for hyperactive children.

Profits came in at £5.4m compared with a loss of £41,000 a year earlier. Sales also rose sharply.

The fight for chassis maker Dennis continued to be a focus. Its shares lost some of the premium to the bid price offered by May*flower. There is uncertainty* over the level of backing that the rival bid from Henlys would receive from Volvo of Sweden. Dennis shares, which had risen above the 450p offer price after Volvo had entered the fray, were down 11½ at 463½p, in thin volume.

Mayflower highlighted comments from Volvo that it had ruled out financial assistance to Henlys and was not interested in increasing its stake beyond 10 per cent. It also said the offer from Henlys was worth 362p for each Dennis share. Mayflower were unchanged at 176½p, while Henlys were down a penny to 565p.

A steadier overnight per*formance in Asian markets* helped boost retail banks exposed to the region. HSBC put on 41 to £13.01, with sen*timent enhanced by a Credit* Lyonnais Securities "buy" recommendation. Standard Chartered rose 14 to 607p.

Tesco in demand

Solid demand for Tesco helped overcome reports of sharp profit downgrades.

Dealers suggested BT Alex Brown and Morgan Stanley had reduced their current-year profits estimate by around 2 per cent and the following year's by 4 per cent.

However, the shares ended the day 1½ ahead at 171½p with 12m having been dealt by the close.

In the rest of the sector, rival Sainsbury gained 11 to 505p, while Asda Group saw volume of 20m and put on 5 to 190p. Safeway stood out as the only stock to register a decline among the leading food retailers. The shares gave up 6½ to 334½p.

Oil group Lasmo was the worst performer in the FTSE 100 as low crude prices depressed sentiment in oil-related stocks. The shares declined 15¾ to 200¼p.

In the rest of the oils, *strong two-way business in* BP, which on Tuesday announced the takeover of US oil giant Amoco, once again made it the busiest stock of the day. Although turnover was down on Tuesday's total, it had reached a respectable 73m by the close of the session. The shares eased a penny to 794p.

There was also solid business in Shell. Volume was 66m as the shares eased ¾ to 347p. Burmah fell 22 to £10.33.

BSkyB reversed an early decline as growing confidence in the company's ability to attract customers outweighed negative sentiment. The shares closed 10¾ up at 428p.

The group reported full-year profits of £271m – down from £314m but in line with market expectations – *prompting a series of profit* downgrades. Analysts now expect current-year profits of between £190m and £220m.

Carlton Communications fell 23¾ to 468p, after Dresdner Kleinwort Benson downgraded its recommendation to "reduce" from "hold".

Rugby was the worst performer in the FTSE 250 as the stock fell 6½ to 81p. Much of the fall was attributed to a line of 1.5m shares traded at 82p each when the mid-price was 86p.

Morgan Sindall, the SmallCap construction group, rose 14 to 233½p after strong interims. Peel Hunt, house broker, increased its full-year forecast from £8.6m to £9.3m.

Datrontech was down 23 at 60p. The personal computer products company warned *its interims would be around* £2.3m, and the second half no better. Analysts had hoped for £6m.

Vaux was up 21 at 359½p on a story that it was days away from announcing an agreed offer at about 415p a share. The stock found support after the brewer said in June it had received an approach, but these talks broke down.

Whitbread, seen as a leading contender, was unchanged at 838p.

FT 30 INDEX

	Aug 12	Aug 11	Aug 10	Aug 7	Aug 6	Yr ago	*High	*Low
FT 30	3515.7	3503.2	3587.7	3662.1	3610.3	3185.2	3984.0	3486
Ord. div. yield	3.07	3.09	3.01	2.95	2.98	3.45	4.22	2.72
P/E ratio net	21.82	21.72	22.30	22.76	22.47	18.74	25.41	15.80
P/E ratio nil	21.73	21.64	22.21	22.67	22.37	18.55	25.19	15.71

FT 30 since compilation: high 3920.5 11/05/98, low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3503.2	3499.7	3506.5	3498.1	3517.5	3522.7	3522.4	3503.9	3533.9	3488.0

STOCK MARKET TRADING DATA

	Aug 12	Aug 11	Aug 10	Aug 7	Aug 6	Yr ago
SEAQ bargains	60,067	65,094	49,757	55,494	61,620	49,231
Equity turnover (£m)†	-	3276.6	2626.2	2888.3	2989.3	2996.9
Equity bargains†	-	45,922	39,835	43,074	47,309	50,030
Shares traded (m)†	-	705.8	646.3	703.2	726.3	869.0
Total market bargains‡	-	60,510	49,642	55,666	62,402	-
Total turnover (£m)‡	-	4524.7	3405.1	4034.1	4369.5	-
Total shs traded (m)‡	*833.2	949.6	796.1	932.5	989.9	-
Tradepoint turnover (£m)	77.5	28.2	13.9	14.1	29.0	0.8
Tradepoint shrs traded(m)	19.9	11.3	4.5	6.0	9.7	0.1

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	801	Total Highs	26	Total contracts	53,715
Total Falls	831	Total Lows	199	Calls	20,106
Same	1,338			Puts	33,609

Aug 12 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	5500.0	5485.0	+50.0	5524.0	5420.0	39031	185343
Dec	5590.0	5585.0	+50.0	5593.0	5521.0	316	9721
Mar		5628.0	+50.0			0	1145

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

Sep	5260.0	5300.0	+15.0	5300.0	5260.0	102[illegible]	5440

■ FTSE 100 INDEX OPTION (LIFFE) (*5463) £10 per full index point

[illegible]

Calls 8,146 Puts 4,471

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

Calls 7,193 Puts 4,230 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to the London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998 High	1998 Low	Stock	Closing price p	+or-
180	Nil	24/8	30½pm	19½pm	[illegible]	30pm	+1
300	Nil	17/8	10pm	7pm	[illegible]	8pm	
210	Nil	14/8	5pm	2½pm	Wellington Underwrtg	2½pm	

pm premium.

FTSE GOLD MINES INDEX

	Aug 11	% chg on day	Aug 10	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (28)	857.01	-3.9	891.90	1494.12	2.38	-	1535.45	857.01
■ Regional Indices								
Africa (10)	949.19	-4.5	993.92	1443.65	4.92	36.63	1525.29	914.31
Australasia (7)	974.77	-3.1	1005.55	1477.57	3.27	8.73	1669.65	933.63
Americas (11)	810.72	-3.8	842.53	1470.91	0.84	47.44	1574.16	810.72

Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Aug 12	Day's chge%	Aug 11	Aug 10	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5462.2	+0.5	5432.8	5587.5	5003.6	3.05	2.59	1.96	20.86	99.96	2399.13
FTSE 250	5213.7	+0.2	5202.3	5354.7	4677.0	3.17	2.68	1.98	19.90	89.65	2243.85
FTSE 250 ex Inv Tr	5261.8	+0.2	5252.3	5392.7	4676.9	3.26	2.76	2.04	18.75	93.12	2273.64
FTSE 350	2630.0	+0.5	2616.4	[illegible]	2407.6	3.07	2.60	1.97	20.67	47.72	2368.18
FTSE 350 ex Inv Tr	2643.1	+0.5	[illegible]	[illegible]	[illegible]	3.09	2.62	1.98	20.45	48.11	1216.62
FTSE 350 Higher Yield	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.12	3.49	1.90	15.98	58.44	1979.22
FTSE 350 Lower Yield	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.22	1.88	2.07	27.18	39.18	1971.92
FTSE SmallCap	2359.75	-0.3	[illegible]	[illegible]	[illegible]	3.41	2.77	1.92	19.06	38.18	2059.85
FTSE SmallCap ex Inv Tr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.64	2.96	2.02	17.00	40.08	2086.47
FTSE All-Share	2589.15	+0.4	[illegible]	[illegible]	[illegible]	3.09	2.61	1.96	20.57	46.15	2339.63
FTSE All-Share ex Inv Tr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.12	2.64	1.98	20.24	46.72	1208.75

■ FTSE Actuaries Industry Sectors

[illegible]

■ Hourly movements

[illegible]

Time of FTSE 100 Day's High / Day's Low [illegible]

Further information is available on http://www.ftse.com. © FTSE International Limited 1998. All Rights reserved. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. [illegible]

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	1,300	540	-8
ABBEY NAT	1,300	[illegible]	+11½
ASDA Group	20,600	190	+5
Abbey National	3,000	1106	+33
Alliance & Leicester	7,100	843	+3
Allied Domecq	2,000	558	-6
Assoc. Brit. Foods	487	519½	-1½
BAA	2,400	640	-17
BAT Inds.	9,500	579½	+4½
BOC	917	767	-31
BG	7,200	352	-9
BP	73,300	794	-1
BSkyB	7,000	429	+10¾
BT	11,300	927½	+18½
BTR	13,800	155½	-3
Bank of Scotland	4,400	616	-9
Barclays	2,400	1620	+6
Bass	1,400	955	
Billiton	5,100	129½	+1½
Blue Circle	1,300	325	-3
Boots	2,700	958	-12
Brit. Aerospace	4,000	459	-20
British Airways	3,300	510	+1
British Energy	2,000	571	-4
British Land	2,900	566	+6
British Steel	10,100	115	-1½
CGU	4,300	1030	-15
Cable & Wireless	5,900	747	+27
Cadbury Schweppes	2,700	859	+18
Carlton Comms.	2,800	468	-23¾
Centrica	7,400	88½	-1½
Compass	1,100	597	+18
Daily Mail & Gen A†	114	2550	+25
Diageo	4,900	664	-4

[illegible]

If you would like to advertise, or require any further information, please contact: Sherie Donovan Tel: 0171-873 4928 Fax: 0171-873 3062

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Aug 12 / Sch)

BELGIUM/LUXEMBOURG (Aug 12 / Frs.)

CZECH REP (Aug 12 / Koruna)

DENMARK (Aug 12 / Kr)

FINLAND (Aug 12 / Mka)

FRANCE (Aug 12 / Frs.)

GERMANY (Aug 12 / Dm.)

GREECE (Aug 12 / Drachmae)

ITALY (Aug 12 / Lira)

NETHERLANDS (Aug 12 / Fl.)

NORWAY (Aug 12 / Kroner)

POLAND (Aug 12 / Zloty)

PORTUGAL (Aug 12 / Escudo)

SPAIN (Aug 12 / Pta.)

SWEDEN (Aug 12 / Kronor)

SWITZERLAND (Aug 12 / Frs.)

TURKEY (Aug 12 / Tk.Lira)

PACIFIC

JAPAN (Aug 12 / Yen)

HONG KONG (Aug 12 / HK $)

INDONESIA (Aug 12 / Rupiah)

MALAYSIA (Aug 12 / MYR)

NEW ZEALAND (Aug 12 / NZ $)

SINGAPORE (Aug 12 / S$)

AUSTRALIA (Aug 12 / Aust$)

SOUTH KOREA (Aug 12 / Won)

TAIWAN (Aug 12 / TW $)

THAILAND (Aug 11 / Baht)

AMERICAS

CANADA

TORONTO (Aug 12 / Can $) 4 pm close

MONTREAL (Aug 12 / Can $) 4 pm close

MEXICO (Aug 12 / Peso) 12.30 pm

AFRICA

SOUTH AFRICA (Aug 12 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY AUGUST 11 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY AUGUST 10 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (73)	175.09	-2.4	158.97	162.85	162.14	196.47	-1.4	3.79	179.40	182.99	186.15	165.98	199.31	238.24	173.27	231.72
Austria (22)	220.12	-2.3	199.86	204.73	209.65	208.72	-2.2	1.66	225.40	204.78	208.78	208.54	208.40	253.73	181.60	197.62
Belgium (22)	374.65	-2.8	340.16	348.46	348.96	339.30	-2.7	2.02	385.57	350.30	357.11	356.72	348.77	398.52	234.33	298.08
Brazil (26)	187.85	-4.0	170.56	174.72	173.97	404.05	-4.1	2.86	195.79	177.88	181.34	181.14	421.30	308.59	184.94	286.52
Canada (119)	194.15	-3.5	176.28	180.58	179.80	213.81	-3.3	1.91	201.11	182.71	186.27	186.06	221.02	248.78	194.15	218.93
Denmark (34)	459.68	-3.9	417.38	427.54	425.70	424.21	-3.8	1.52	478.25	434.50	442.96	442.47	440.94	537.33	375.32	385.05
Finland (28)	430.39	-6.0	390.77	400.30	398.58	489.09	-6.0	1.88	458.08	416.17	424.27	423.81	520.15	506.46	267.59	306.45
France (78)	300.79	-2.9	273.10	279.76	278.55	281.75	-2.8	2.23	309.75	281.41	286.89	286.57	289.92	345.18	217.48	228.15
Germany (58)	276.38	-3.9	250.94	257.06	255.95	255.95	-3.8	1.24	287.52	261.22	266.30	286.01	286.01	325.61	204.89	231.21
Greece (37)	308.92	-3.2	280.48	287.33	286.09	654.92	-3.0	1.44	318.30	290.09	295.74	295.41	675.55	333.20	260.24	-
Hong Kong, China (68)	201.83	-3.2	183.25	187.72	186.91	200.81	-3.1	7.72	208.41	189.34	193.03	192.82	207.34	570.27	201.83	570.27
Indonesia (27)	28.28	-3.8	25.67	26.30	26.19	229.85	-2.7	2.95	29.38	26.78	27.22	27.19	236.15	202.66	23.58	202.65
Ireland (16)	502.34	-3.1	456.09	467.22	465.20	502.13	-2.9	1.88	518.57	471.13	480.30	479.77	517.18	560.44	359.60	373.76
Italy (54)	160.70	-2.9	145.90	149.46	148.82	210.86	-2.8	1.40	165.45	150.31	153.24	153.07	216.92	184.49	97.34	97.34
Japan (480)	83.63	-2.1	75.93	77.78	77.45	77.78	-1.7	1.01	85.48	77.84	79.15	79.07	79.16	132.92	83.04	130.65
Malaysia (108)	84.01	-6.2	76.28	78.14	77.80	137.53	-5.7	4.56	89.56	81.37	82.85	82.66	145.89	407.41	84.01	400.34
Mexico (29)	1128.01	-4.0	1024.16	1049.15	1044.82	11385.55	-3.0	2.40	1175.66	1068.12	1086.90	1087.71	11722.28	1901.98	1128.01	1801.81
Netherlands (27)	476.65	-3.6	432.76	443.32	441.41	436.66	-3.5	2.04	494.49	449.26	458.00	457.50	452.92	562.38	385.56	418.75
New Zealand (14)	57.76	-1.9	52.44	53.72	53.49	81.15	-0.6	4.98	58.87	53.48	54.52	54.46	61.52	95.87	58.33	89.24
Norway (38)	272.51	-3.8	247.42	253.46	252.38	281.17	-3.7	2.22	283.13	257.23	262.23	261.95	292.02	374.64	272.51	328.49
Philippines (22)	54.98	-3.4	49.92	51.14	50.91	120.01	-4.1	1.41	58.89	51.68	52.69	52.63	125.17	144.09	54.98	144.09
Portugal (18)	262.13	-3.7	237.99	243.80	242.75	326.90	-3.6	1.00	272.14	247.25	252.08	251.78	339.03	299.39	261.25	-
Singapore (42)	128.99	-4.3	118.02	120.90	120.38	105.48	-4.0	2.86	135.84	123.42	125.82	125.68	109.86	346.24	129.99	346.24
South Africa (40)	179.63	-7.9	163.09	167.07	166.35	250.68	-6.5	3.65	195.08	177.23	180.68	180.48	268.19	357.59	179.63	357.59
Spain (31)	371.68	-3.5	337.46	345.70	344.21	425.65	-3.4	1.79	385.12	349.89	356.70	358.31	440.60	417.73	236.28	244.58
Sweden (46)	518.33	-3.6	466.80	480.24	478.16	621.96	-3.0	1.99	585.65	486.65	496.12	495.58	641.09	628.19	439.98	511.77
Switzerland (26)	398.93	-3.0	360.38	369.18	367.58	366.32	-3.4	1.13	409.16	371.73	378.96	378.55	379.15	439.48	285.85	309.20
Thailand (37)	9.59	-4.9	8.71	8.92	8.85	15.80	-3.6	5.97	10.08	9.16	9.34	9.32	16.39	59.11	9.59	58.72
United Kingdom (210)	347.10	-2.6	315.14	322.93	321.44	315.14	-2.6	3.15	356.29	323.70	330.00	329.64	323.70	401.84	303.41	314.44
USA (626)	437.50	-1.4	397.22	406.91	405.16	437.50	-1.4	1.48	443.78	403.19	411.03	410.58	443.78	485.66	358.31	379.82
Americas (800)	391.51	-1.5	355.46	364.14	362.57	331.76	-1.5	1.52	397.59	361.22	368.25	367.85	336.87	437.03	329.79	347.30
Europe (748)	336.14	-3.1	306.19	312.64	311.29	318.73	-3.1	2.13	346.97	315.23	321.37	321.02	328.96	386.24	265.25	276.37
Eurobloc (352)	98.20	-3.4	89.16	91.34	90.94	98.34	-3.3	1.73	101.68	92.38	94.17	94.07	101.73	113.28	98.20	-
Nordic (148)	464.53	-4.2	421.76	432.06	430.19	481.87	-3.8	1.95	494.64	440.30	448.87	449.38	500.73	555.97	388.51	431.23
Pacific Basin (667)	87.93	-2.3	79.63	81.78	81.43	81.67	-1.9	1.82	90.01	81.78	83.37	83.28	83.23	150.25	87.93	148.87
Euro-Pacific (1615)	191.39	-2.9	173.77	178.01	177.24	170.99	-2.8	2.05	197.13	179.10	182.58	182.38	175.89	220.19	172.03	202.09
North America (745)	421.31	-1.5	382.52	391.85	390.16	422.23	-1.5	1.50	427.69	388.57	398.13	395.70	428.60	489.20	349.06	369.84
Europe Ex. UK (538)	318.57	-3.4	289.24	296.30	295.02	310.45	-3.3	1.65	329.70	299.54	305.37	305.04	321.14	368.32	236.79	249.45
Europe Ex. Eurobloc (396)	90.83	-2.8	82.45	84.48	84.11	92.43	-2.9	2.55	93.45	84.90	86.55	86.46	95.17	103.93	90.83	-
Europe Ex. UK Ex. Eurobloc (186)	95.88	-3.2	87.06	89.18	88.80	97.15	-3.3	1.39	99.19	90.03	91.78	91.68	100.46	109.21	95.88	-
Pacific Ex. Japan (387)	135.32	-3.0	122.86	125.85	125.31	144.77	-2.5	5.16	139.55	128.79	129.25	129.11	148.44	305.64	135.32	305.64
World Ex. Eurobloc (2103)	91.49	-1.9	83.06	85.09	84.72	93.41	-1.9	7.77	93.26	84.74	86.39	86.30	95.16	103.16	91.49	-
World Ex. US (1829)	191.65	-3.0	174.00	178.25	177.48	175.56	-2.9	2.07	197.57	179.50	182.99	182.78	180.72	221.91	175.30	206.36
World Ex. UK (2245)	263.68	-2.1	239.40	245.24	244.18	244.86	-2.0	1.80	269.42	244.77	249.53	249.26	249.98	298.02	234.24	258.71
World Ex. Japan (1975)	364.05	-2.2	330.53	338.60	337.14	359.91	-2.1	1.84	372.17	338.13	344.71	344.33	367.81	411.23	309.33	328.53
The World Index (2455)	270.81	-2.2	245.88	261.88	250.79	251.33	-2.1	1.78	276.84	251.51	256.41	258.13	258.75	306.56	241.30	261.70

Emerging markets: IFC Investable Indices

Aug 11 Market	Dollar terms	Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	840.32	-2.9	-24.7
Brazil	375.16	-3.9	-22.3
Chile	490.75	-2.8	-23.6
Colombia[1]	512.10	-1.5	-38.0
Mexico	493.88	-3.9	-37.3
Peru[2]	177.48	-3.3	-19.8
Venezuela[3]	375.97	-4.9	-58.9
East Asia			
China[4]	22.56	-4.8	-59.2
Korea[5]	25.28	-0.8	+6.2
Philippines	78.40	-2.8	-32.2
Taiwan, China[6]	116.25		-17.6
South Asia			
India[7]	83.09	-2.0	-24.3
Indonesia[8]	13.84	-4.2	-58.9
Malaysia	46.29	-6.2	-49.2
Pakistan[9]	98.92	-1.9	-60.2
Sri Lanka[10]	83.80	-0.9	-28.1
Thailand	34.72	-3.1	-26.2
Europe/Mideast/Africa			
Czech Rep	50.95	-6.6	-6.9
Egypt	72.78	-0.9	-21.9
Greece	552.58	-3.2	+70.6
Hungary[11]	285.10	-8.8	-8.4
Israel	124.60	-3.1	+2.4
Jordan	233.28		+10.9
Morocco	170.02	+0.5	+30.5
Poland[12]	673.29	-3.5	+12.8
Portugal	291.89	-3.6	+38.3
Russia	40.83	-11.4	-72.5
S Africa[13]	129.12	-7.8	-28.2
Slovakia	60.11	-0.3	-39.4
Turkey[14]	211.89	-7.6	-32.2
Zimbabwe[15]	184.25	+0.3	-28.8
Regions			
Composite	184.13	-4.0	-25.2
Latin America	478.43	-3.5	-28.4
Asia	75.10	-1.9	-30.3
EMEA	123.47	-5.7	-16.4
Europe	163.61	-5.7	-13.2
Eastn Europe	74.17	-8.6	-47.2
ME & Africa	57.47	-5.6	-19.7

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.
Latest indices were unavailable for this edition.

4 pm close August 12

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Advertisement

INSECTSe

INSECTSe are published by European Benchmarks nv-sa (EuroBench) an independent index publishing company. INSECTSe are the first pan-European INdices on SECTorS with correlation selected constituents taken from the TOP 500 European companies by market capitalisation. Information about EuroBench and the Insects can be found on the Internet at HTTP://WWW.EUROBENCH.COM and HTTP://WWW.EURO-INSECTS.COM. EuroBench has offices in Brussels (Tel: +32.2.609.94.60) and in London (Tel: +44 171.330.79.88)

Closing values at 16.00 CET — *E-Mail:info@eurobench.com*

European Sector Indices		CURRENT 12/8/98	PREVIOUS 11/8/98	NET CHANGE	% CHANGE
Financials	USD	2176.41	2129.91	+46.50	+2.18
(IN-FIN)	DEM	2698.46	2650.31	+48.15	+1.81
Non-durable goods	USD	1604.10	1567.61	+36.50	+2.33
(IN-GOODS)	DEM	1988.97	1950.64	+30.33	+1.56
Oils	USD	1289.63	1337.99	-47.29	-3.53
(IN-OIL)	DEM	1599.21	1663.79	-64.58	-3.88
Pharma-chemicals	USD	1450.03	1421.98	+28.05	+1.97
(IN-PHARMA)	DEM	1797.84	1769.42	+28.42	+1.60

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‡ Dealings suspended

♣ FT Free Annual Reports Club

You can obtain the current annual reports and if available quarterly reports of any companies on the US exchanges with a ♣ symbol. To order reports ring (International Access) 1-804-32 0-8097 or give the names of the companies whose reports you want and fax your request to (International Access) 1-804-320-8135. Reports will be sent the next working day, subject to availability. You can also order online at http:// www.icbinc.com/cgi-bin/ft.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Aug 11	Aug 10	Aug 7	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8462.85	8574.85	8598.02	9337.97 (17/7)	7580.42 (9/1)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	105.37	105.28	105.19	105.48 (15/1)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3035.83	3083.13	3100.77	3686.02 (15/4)	3035.83 (11/8)	3686.02 (15/4/98)	13.23 (8/7/32)
Utilities	274.72	276.67	277.86	295.40 (6/7)	262.66 (9/1)	295.40 (6/7/98)	10.53 (8/7/32)

DJ Ind. Day's high 8538.29 (8609.16) Low 8383.32 (8451.17) (Theoretical)
Day's high 8570.84 (8635.95) Low 8336.87 (8543.16) (Actual)

Standard and Poors	Aug 11	Aug 10	Aug 7	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1068.98	1083.14	1089.45	1186.75 (17/7)	927.69 (9/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials‡	1259.26	1272.66	1277.85	1380.46 (17/7)	1077.40 (9/1)	1380.46 (17/7/98)	3.52 (30/6/32)
Financial‡	124.35	127.64	128.48	147.88 (14/7)	116.65 (9/1)	147.88 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	537.95	545.72	549.50	600.25 (17/7)	487.47 (9/1)	600.25 (17/7/98)	4.64 (25/4/42)
Amex Comp	659.27	679.80	684.07	783.67 (22/4)	646.41 (12/1)	783.67 (22/4/98)	524.20 (10/7/98)
NASDAQ Cmp	1792.70	1839.21	1846.77	2014.25 (20/7)	1503.22 (9/1)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	400.80	411.54	415.88	491.41 (21/4)	398.69 (5/8)	491.41 (21/4/98)	123.36 (1/12/93)

RATIOS

	Aug 7	Jul 31	Jul 24	Year ago
Dow Jones Ind. Div. Yield	1.71	1.63	1.64	1.81

	Aug 5	Jul 29	Jul 22	Year ago
S & P Ind. Div. yield	1.35	1.30	1.25	1.47
S & P Ind. P/E ratio	30.34	31.51	32.56	28.35

US DATA

MARKET ACTIVITY

Volume (million)	Aug 11	Aug 10	Aug 7
NYSE	774.440	579.180	758.150
Amex	33.743	19.974	31.851
NASDAQ	737.232	551.312	814.947

NYSE	Aug 11	Aug 10	Aug 7
Issues Traded	3,530	3,519	3,504
Rises	550	996	1,990
Falls	2,585	1,985	970
Unchanged	395	538	545
New Highs	17	21	32
New Lows	320	190	132

NYSE TRADING ACTIVITY

Volume : 774,440,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Amoco	20,182,100	46⅝	+6
Compaq	11,325,700	33⅛	−⅞
BP	10,888,600	78⅞	+2⅜
Pepsico	9,452,800	34⅝	−1⅛
Travlr	7,877,300	55⅝	−2⅞
Cendant	6,880,000	14⅛	−⅞
LucentTch	6,359,700	88⅞	−1⅜
Disney	6,312,200	32⅝	−⅜
PhMorr	6,169,800	41⅞	−⅞
Citicp	5,709,200	144⅝	−6⅝

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Amoco	46⅝	+6	+14.7
PaineW	49⅝	+3⅝	+7.8
Texaco	59⅛	+2⅞	+5.2
Pfe	11⅞	+⅞	+8.1
Downs			
Mattel	36	−3⅜	−11.6
Mikel Corp	10⅝	−1⅛	−9.7
CircCt	45⅝	−4⅛	−8.1
Br Air	80⅝	−7⅝	−8.5

NASDAQ TRADING ACTIVITY

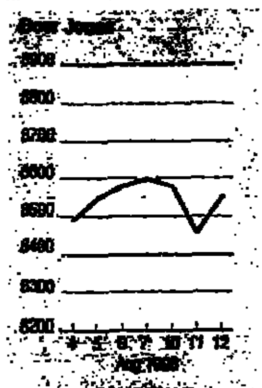
Volume 737,232,000

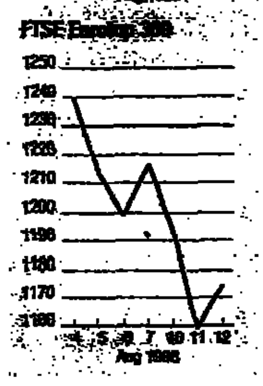
ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
DellComp	19,027,100	106⅝	−4
Intel	18,199,200	84⅞	−2⅛
AppleC	15,884,500	38	+1⅛
Micsft	15,268,300	103⅞	−1
Nolmco	13,650,300	29⅛	−1⅞
CiscoSys	13,500,300	98	−1⅛
WrldCm	13,521,700	49⅞	−2⅜
ApplMat	8,277,100	32⅝	−⅞
EricsnB	8,011,200	23⅝	−1⅜
3Com	7,073,800	27⅝	−⅞

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Rambus	80⅝	+8⅞	+11.9
StarEnt	22⅝	+2⅜	+11.7
AdvLrnSys	35⅝	+3	+9.3
US Frght	24⅝	+2⅞	+8.2
Downs			
CognizLrn	18⅞	−6⅜	−25.4
FdGldem	15⅝	−2⅝	−15.4
Compuwt	16⅞	−2⅞	−14.3
MckFile	18⅝	−1⅜	−12.2





JAPAN

	Aug 12	Aug 11	Aug 10	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	15378.97	15406.99	15828.42	17264.34	14664.44	38915.9	85.25

Day's high 15534.07 Day's low 15289.83

TOKYO TRADING ACTIVITY

Volume : 420,000,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Sakura Bank	15,881,000	276	−8
Np Steel Cp	14,325,000	249	
Kawai Music	11,180,000	430	−70
LTCB	10,508,000	42	+4
Bk Tk-Mitsbsl	8,638,000	1173	−14
Fuji Bank	8,087,000	425	
Mitsui T&B	7,504,000	198	−5
Hitachi	6,480,000	808	−30
Yasuda T&B	5,888,000	87	−2
Sanwa Bank	5,476,000	941	+17

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Np Conveyor	135	+14	+11.6
LTCB	42	+4	+10.5
Tobishima	74	+7	+10.6
Downs			
Nihon Ser	400	−100	−20
Nihon Chm	340	−60	−15.1
Shinko	142	−28	−15.5
Kawai Music	430	−70	−14
Kiwa Bev	2150	−270	−11.2

FRANCE

	Aug 12	Aug 11	Aug 10	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3945.70	3945.98	3939.45	4388.48	2882.54	4388.48	1041.81

Day's high 3945.70 Day's low 3872.07

PARIS TRADING ACTIVITY

Volume : 18,000,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
BNP	1,380,353	467.7	+12.7
Axa	1,115,175	758	+25
TotalB	1,010,444	841	+31
FrTele	882,703	419	+18.4
Elf Aqu	840,523	701	−3
Usinor	870,804	73.65	+1.75
RhonPlA	827,288	300.1	−7.9
Alcatel	648,886	1143	+45
Paribas	580,085	586	+3
Schndr	409,935	394	+7.5

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
CapGem	925	+72	+8.4
Atos	1415	+95	+7.2
Michlin	389.8	+17.8	+5.1
Eridany	1206	+87	+5.8
Downs			
SAT	2571	−119	−4.4
Gtrbys	670	−29	−4.1
Imtech	2032	−66	−3.2
Pathe	281.2	−8.8	−3.0

GERMANY

	Aug 12	Aug 11	Aug 10	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	5402.37	5268.40	5476.25	6171.43	4087.28	6171.43	931.18

Day's high 5425.02 Day's low 5340.86

FRANKFURT TRADING ACTIVITY

Volume n/a

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Lufthns	1,145,484	45.15	+2.05
Bayer	1,107,237	73.1	+0.7
Comrzbk	895,446	60	+3
Dt Bk	857,184	129.25	+3.05
Daimlr	836,380	178.4	+1.2
BASF	801,221	73.2	+0.9
Veba	565,807	99.95	+1.75
VW	541,888	142.5	+1.5
Siemns	445,752	121.2	+2.4
DrsdBk	427,818	94.9	+2.5

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
SAP	1042	+102	+10.9
Linde	33	+3	+10.0
Porsche	4750	+320	+7.2
BHF Bk	85.2	+5.7	+7.2
Downs			
Hertie	78	−9	−10.6
Ergo	33.5	−2.5	−6.9
MobRhD	589	−29	−4.8
Thiel	48.9	−2.1	−4.1

UK

	Aug 12	Aug 11	Aug 10	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5462.2	5432.8	5587.6	6179.00	5030.80	6179	986.9

Day's high 5494.3 Day's low 5400.6

LONDON TRADING ACTIVITY

Volume : 833,300,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Br Petroleum	73,154,080	794	−1
Shell T&T	65,818,530	347	−¾
ASDA	23,818,940	190	+5
BTR	13,887,300	155½	−3
Vodafone	13,550,070	797	−3
Smithkline	13,487,220	862	+3
Tesco	12,874,030	171½	+1½
Sedgwick Gp	11,874,420	157½	−½
Lloyds TSB	11,484,310	723	−7
Br Telecom	11,298,130	827½	+18½

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Autonomy	95	+13	+15.9
Shire Pharm	367½	+39½	+12.2
Aegon Grp	78	+8	+11.4
Schroder NV	1270	+96	+8.2
Downs			
REA Hldgs	85	−50	−37.0
Domnick	80	−75	−27.7
Leslie Wise	8	−3	−27.5
Xenova Grp	70	−17	−19.5

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Sep	1071.50	1080.00	+9.00	1080.00	1070.50	138,782	351,277
Dec	1089.50	1091.50	+8.10	1091.50	1089.50	573	16,771

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Sep	15280.0	15410.0	+60.00	15500.0	15270.0	22,719	210,290
Dec	15270.0	15320.0	+30.00	15400.0	15230.0	231	16,678

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Aug	–	3946.0	+100	3946.0	3946.0	57,800	180,040
Sep	3890.0	3956.5	+100	3982.5	3890.0	1,674	108,630
DAX							
Sep	5388.0	5413.0	+122.0	5480.5	5354.0	28,911	86,755
Dec	5444.0	5442.5	+108.0	5476.0	5400.0	115	2,827

OMX	Open	Sett Price	Change	High	Low	Est. vol	Open Int.
Aug	708.00	707.75	+7.75	718.50	697.00	28,432	164,588
Sep	714.00	718.00	+17.00	718.00	701.00	338	6,537
SOFFEX							
Aug	7530.0	7611.0	+161.0	7605.0	7527.1	10,215	28,032
Sep	7580.0	7602.2	+143.1	7657.6	7580.0	486	3,375

WORLD MARKETS AT A GLANCE

Country	Index	Aug 12	Aug 11	Aug 10	1998 High	1998 Low	♣ Yield	♣ P/E
Argentina	General	18632.53	18361.93	18791.20	23485.47 23/3	18237.40 2/1	3.34	15.3
Australia	All Ordinaries	2551.0	2581.1	2597.4	2881.40 16/4	2524.80 16/6	3.47	18.3
	All Mining	526.7	533.0	546.9	713.18 23/4	526.70 12/8		
Clawed back much of sharp early falls as local dollar and bonds bargained with a firmer yen. Falls doubled rises at close.								
Austria	Credit Aktien	(a)	(a)	511.52	584.34 25/5	437.44 13/1	1.65	14.6
	ATX Index	1399.47	1392.88	1425.89	1628.58 26/5	1246.69 13/1		
Ended higher despite a bad day for Bank Austria which fell 3 per cent.								
Belgium	BEL20	3409.74	3375.22	3489.19	3832.67 20/7	2367.26 10/1	1.81	21.9
Broad market gained ground with bargain hunters active among blue chips.								
Brazil	Bovespa	8879.0	8802.0	9182.0	12280.60 15/4	8802.60 11/8	na	na
♣Shares firmed in early trading.								
Canada	TSE 100♦	397.73	386.01	399.23	476.83 25/5	380.69 12/1	1.83	19.5
	Metals Mnls♦	3034.88	3028.21	3146.95	4399.61 10/3	3028.21 11/8		
	Composite♦	6477.10	6312.92†	6523.70	7822.30 22/4	6239.95 12/1		
	Portfolio§§	3284.27	3165.02	3275.32	3985.81 25/5	3165.02 11/8		
♣Pushed higher in early trade following a rally for the Canadian dollar.								
Chile	IGPA Gen♥	3938.43	3927.05	4003.44	4881.95 17/3	3927.85 11/8	3.26	12.7
China	Shanghai B	28.25	27.19	27.63	50.58 10/2	28.25 12/8	1.38	29.2
	Shenzhen B	50.08	52.80	55.46	98.97 10/2	50.08 12/8		
Hard-currency shares continued to slide as corporate earnings expectations sagged with the slowing economy.								
Colombia	IBB	1071.36	1071.36	1076.38	1491.46 7/1	1017.83 17/6	na	na
Czech Republic	PX 50	456.3	447.5	464.1	517.30 23/3	432.30 16/6	na	na
Shares rallied with Komercni Banka up almost 5 per cent.								
Denmark	CopenhagenSE	670.54	675.01	695.90	778.84 7/4	667.08 12/1	1.52	18.2
Blue chips led broad market high.								
Egypt	Cairo SE Gen	364.26	364.58	365.31	383.19 21/4	345.48 2/2	na	na
Finland	HEX General	4909.35	4752.93	5029.22	5593.48 21/7	3329.43 12/1	2.13	16.1
Nokia jumped 4.5 per cent to lead market higher.								
France	SBF 250	2594.27	2479.46	2538.86	2798.73 17/7	1873.30 12/1	2.41	18.2
	CAC 40	3945.70	3845.98	3939.45	4388.48 17/7	2882.54 12/1		
Rallied strongly. Software leader Cap Gemini jumped 8.4 per cent on acquisition talk.								
Germany	FAZ Aktien	1685.612	1660.42	1746.99	1940.80 20/7	1334.15 12/1	1.4	22
	Commerzbank	4967.40	4894.50	5135.70	5712.80 20/7	3868.20 12/1		
	DAX‡	5402.37	5268.40	5476.25	6171.43 20/7	4087.28 12/1		
Bargain hunting lifted shares. SAP rallied 9.8 per cent.								
Greece	Athens SE	2614.90	2611.30	2694.57	2825.92 21/7	1398.13 29/1	1.65	20.2
	FTSE/ASE 20	1588.24	1587.36	1638.58	1727.33 21/7	795.18 29/1		
Ended modestly higher with state-controlled banks in demand.								
Hong Kong	Hang Seng	6858.48	6779.95	7034.82	11880.83 25/3	6779.95 11/8	6.11	7.1
	HSCC Red Chip	594.55	595.17	611.78	1775.09 27/2	594.55 12/8		
Rebounded from 5-year lows as interbank rates eased. Utilities rose 3.2 per cent while properties fell 1.2 per cent.								
Hungary	Bux	7370.42	7146.72	7748.98	9048.36 23/4	7048.35 28/5	na	na
Shares rebounded helped by a 12.5 per cent surge for truck and axle maker Raba.								
India	BSE Sens.	2950.80	2978.54	3029.71	4280.96 21/4	2950.80 12/8		
	Crisil 500	587.35	592.72	600.81	815.82 21/4	578.17 23/6	na	na
Faded at a 20-month low after rupee weakness sparked a wave of selling.								
Indonesia	Jakarta Comp.	408.84	407.06	421.17	554.10 2/2	342.97 9/1	2.37	15.8
Rodie maker Indofood jumped 12 per cent on speculation of the sale of a stake in the company.								
Ireland	ISEQ Overall	4953.42	4952.39†	5085.71	5471.81 21/4	4064.76 2/1	1.97	19.2
Israel	Tel Aviv 100	323.23	320.41	320.38	337.43 8/6	283.12 11/2	na	na
Italy	BCI Comit 30	344.94	338.89	349.64	398.88 20/7	254.84 2/1	1.77	24.9
	Banca Com Ital	1448.74	1435.22	1477.83	1854.36 7/4	1072.36 2/1		
	Mibtel General	23115.0	22804.8	23446.8	26377.00 6/4	17280.00 2/1		
Banks stayed in demand as market rallied. BCI rose 3.8 per cent.								
Japan	Nikkei 225	15378.97	15406.99	15828.42	17264.34 2/3	14664.44 12/1	0.94	40.8
	Nikkei 300	231.58	232.87	237.24	257.43 18/2	224.85 12/1		
	Topix	1180.00	1186.88	1207.09	1300.30 10/2	1120.81 12/1		
	2nd Section	1294.32	1305.72	1320.25	1401.27 12/2	1173.76 14/1		
Rebound in the yen helped limit losses in shares, though in broader market declines nearly doubled advances.								
Jordan	Amman SE	183.58	(c)	186.58	183.58 12/8	184.34 30/1	na	na
Malaysia	KLSE Comp.	342.19	334.70	353.28	745.36 27/2	334.70 11/8	4.72	8.3
Recovered with the ringgit on buying support from local investors.								
Mexico	IPC	3690.59	3628.45	3731.49	5284.08 2/1	3628.45 11/8	1.67	10.5
♣Broad market moved higher in early trading.								
Morocco	CFSA	(a)	845.35	842.80	845.35 11/8	688.57 21/1	na	na
Netherlands	CBS TtlRtnGen	1310.8	1292.9	1338.8	1483.80 20/7	1048.20 12/1	2.03	23.1
	CBS All Shr	741.7	731.8	757.6	845.10 20/7	598.20 12/1		
Royal Dutch fell 2.6 per cent, but broad market rallied strongly.								
New Zealand	Cap. 40	1952.39	1993.27	2000.98	2380.02 20/3	1942.31 22/6	4.95	18.1
Broadly weaker in spite of debt market rally and a stable currency.								
Nigeria	SE All-Share	(a)	5828.91	5833.61	6994.87 11/2	2236.49 12/1	na	na
Norway	Oslo SE Ind	1957.34	1979.54	2041.41	2379.86 4/5	1898.91 12/1	1.8	14.4
Continued to backtrack on oil price concerns.								
Pakistan	Karachi SE	976.96	955.00	981.93	1749.31 2/1	785.73 14/7	na	na
Late rally was exacerbated by covering of short positions.								
Peru	Lima Gen	1553.37	1549.22	1611.71	1993.91 4/5	1549.22 11/8	na	na
Philippines	Manila Comp	1307.30	1373.19	1427.86	2311.42 25/3	1307.30 12/8	1.9	10.3
High interest rates continued to weigh on stock prices and push the peso higher. Property shares fell 8.7 per cent.								
Poland	WIG	14871.7	15215.4	15555.4	18692.70 11/3	13228.80 12/1	2.74	4.9
Stayed weak with Bank Handlowy off 5 per cent in active trading.								
Portugal	BVL 30	5341.00	5268.65	5452.33	6176.90 22/4	3879.27 2/1	1.91	30.1
	PSI 20	12123.16	11956.81	12396.88	14282.90 22/4	8831.84 2/1		
Russia	RTS	108.19	108.90	120.92	411.61 5/1	108.19 12/8	na	na
Ended lower in modest volumes as rouble stayed weak.								
Singapore	SES All-S'pore	281.53	283.02	(c)	437.88 19/3	280.84 16/6	3.07	12.8
	Straits Times	995.77	1007.93	(c)	1600.75 19/3	995.77 12/8		
Slipped in spite of yen rebound. Creative Technology lost 3.5 per cent.								
Slovakia	SAX	112.56	112.29	111.59	142.48 5/1	107.03 1/7	na	na
South Africa	JSE All Share	6332.7♥	6303.7	(c)	8358.70 20/4	5880.00 12/1		
	JSE Gold	912.7♥	917.7	(c)	1152.70 6/7	672.80 18/3		
	JSE Ind.	7382.2♥	7376.7	(c)	9942.70 20/4	6718.10 12/1	3.44	10.9
Ended a touch firmer. Stetbic jumped 6 per cent.								
South Korea	KoreaCmpEx**	305.35	311.25	311.95	574.35 2/3	280.00 16/6	1.51	14.4
Domestic retail investors, shaken by Tuesday's yen volatility, joined foreign investors in selling stocks.								
Spain	Madrid SE	868.78	852.11	878.85	947.82 17/7	645.14 12/1	1.81	24
Bargain hunting sent shares higher. Telepizza rose 8.3 per cent.								
Sri Lanka	CSE All Share	581.60	584.50	587.18	789.70 4/5	580.80 25/6	na	na
Blue chips led market lower as traders continued to focus on plantations sector.								
Sweden	AffarsvaldsGen	3460.2	3421.0	3532.8	3865.80 20/7	2853.18 12/1	1.92	20.4
Ended higher in active trade. Electrolux gained from broker upgrades.								
Switzerland	SMI Index	7607.5	7447.9	7721.3	8412.00 21/7	5982.10 12/1	1.22	24.2
	SPI General	4768.48	4677.59	4844.45	5237.30 20/7	3781.36 12/1	na	na
Moved higher in dull volumes. Swiss Life rose 9 per cent to make good previous day's decline.								
Taiwan	Weighted Pr.**	7351.51	7363.98	7372.12	9277.09 2/3	7117.11 12/6	1.44	19
Eased in thin volumes of T$67bn, though recovery in the yen helped restrict losses. Financials fell 1.9 per cent.								
Thailand	Bangkok SET	(c)	234.14	238.30	558.92 3/2	234.14 11/8	4.98	36.4
Turkey	IMKB Nat 100	3554.51	3432.48	3715.60	4830.89 16/7	2777.08 10/2	3.4	13.2
Rallied strongly at the close of trading. Tupras rose 8.5 per cent.								
Venezuela	IBC	4020.64	3989.76	4191.86	7858.92 23/3	3989.76 11/8	na	na
Zimbabwe	ZSE Industrial	(c)	(c)	(c)	8795.71 31/3	6492.55 7/8	na	na
WORLD	FT/S&P World(S)	(a)	270.81	276.84	305.82 17/7	243.98 9/1	na	na
	MS Capital Intl$	1025.4	1018.3*	1035.6	1143.80 20/7	988.50 12/1	na	na
CROSS-BORDER	DJ Stoxx 50	(a)	3187.26	3274.83	3678.82 20/7	2574.83 12/1		
	DJ Euro Stx 50	(a)	3187.44	3282.70	3698.45 17/7	2465.81 12/1		
	FTSE E300	1174.59	1159.16	1194.24	1327.88 20/7	971.83 12/1		
	FTSE E100	2687.57	2659.86	2735.18	3085.81 20/7	2238.40 12/1	na	na
	HSBC Drgn	(a)	158.32	161.37	273.81 26/3	162.78 7/8	na	na
	ING Bngs Emrg	111.19	112.18	118.34	180.08 22/4	112.18 11/8	na	na

** Sat Aug 8: Taiwan Weighted Price [illegible], Korea Comp Ex 314.31. Variant. ♦ Toronto. (c) Closed. (a) Unavailable. ‡ XETRA-DAX after-hours index: Aug 12: 5408.94 +101.15. † Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock, whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation. ♣ Yields and P/E ratios are based on Datastream Total Market Indices. § Midsession.

THE NASDAQ STOCK MARKET

4 pm close August 12

Stock	Div.	P/ E	Vol 100s	High	Low	Last	Chng
[illegible]							

THE NASDAQ STOCK MARKET

Stock	Div.	P/ E	Vol 100s	High	Low	Last	Chng
[illegible]							

AMEX PRICES

4 pm close August 12

Stock	Div.	P/ E	Vol 100s	High	Low	Close	Chng
[illegible]							

EASDAQ

The EASDAQ All Share Index (EASI) for 12th August: [illegible] Day's high: [illegible] Day's low: [illegible]

EASDAQ is a fully regulated independent pan European Stock Market focussed on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
[illegible]											

Prices in [illegible]. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at: [illegible]. EASDAQ offices are located in Brussels (Tel: 32 2 227 65 20) and in London (Tel: 44 171 [illegible]). Annual/interim reports can be obtained for companies with a ♣ [illegible]. For further details please see Share Price pages.

STOCK MARKETS

Yen recovery brings relief to investors

WORLD OVERVIEW

Investors finally achieved some relief from the heavy losses experienced in the first two days of the week as stock markets stabilised yesterday, *writes Philip Coggan.*

The key to the change in sentiment was the Japanese yen which recovered from the eight-year low recorded on Tuesday after some more aggressive noises on intervention from officials. The yen was around Y146 to the dollar during late European trading.

Global stock markets took some heart from this, as they did from the late rebound on Wall Street on Tuesday. The Dow Jones Industrial Average recovered from a 250-point deficit at lunchtime to close 112 points adrift, and continued the trend with an opening 60-point gain yesterday.

Asian markets mostly continued their losing streak, although Hong Kong managed a gain of more than 1 per cent and Manila was the only market to show really heavy losses.

Europe, battered on both sides by the US and Asia in recent weeks, took a much more positive stance. Many of the continent's bourses jumped 2-3 per cent, reversing a good chunk of the previous day's declines.

"Among the world's major regions, continental Europe stands out as the most insulated from the crisis in Asia," according to Schroder Economics. "Europe will not be immune from a global slowdown but in our view this means growth will moderate to 2.5 per cent next year from an expected rate of 2.8 per cent next year. Not spectacular, but still worth a premium in a world where growth is a scarce commodity."

A clue to the recent weakness in stock markets comes from IBES International, the information group, which found that at the end of July the world forward price-earnings ratio was 22, the highest figure recorded since the company started compiling data in 1987.

Twelve-month forward earnings expectations advanced in all G7 nations in July, except the UK and Japan. Projected world earnings growth over 12 months was 31 per cent, or 25 per cent if Japan is excluded.

Such aggressive growth forecasts, allied to high ratings, meant that the markets were very vulnerable to any hint of bad news.

Since the European and US markets peaked in mid-July, the countries which have fared worst in the correction are, predictably, emerging markets: Thailand, Malaysia, Mexico, the Philippines and Brazil. Smaller European markets have done best – Greece, Belgium, Austria and Ireland, where losses have been kept in single-digit percentage terms.

EMERGING MARKET FOCUS

Cold comfort for Philippines

Since the Asian crisis began, the Philippines has taken comfort from the received wisdom that the country is in much better shape than its beleaguered neighbours.

That may be true, but economic fundamentals count for a lot less than sentiment these days and comfort is a scarce commodity.

Yesterday, the bloodbath in Manila continued, with the composite index sliding 8 per cent in intra-day trading before closing down 4.8 per cent at 1,307.30, a fresh 66-month low.

Having motored ahead in the first quarter – at one point it soared 50 per cent from its January low – the index now languishes 29 per cent down on the year. That still leaves Manila outperforming many regional bourses, down to the levels of the late 1980s.

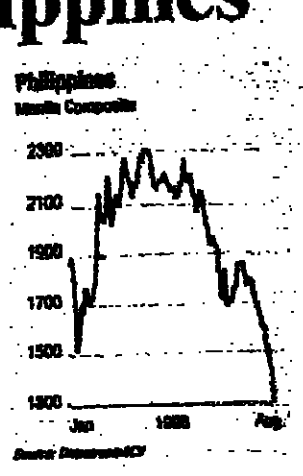
Most observers blame the downturn on the dismal regional outlook. But the Philippines is also fast losing what little lustre it once had as the extent of its own economic downturn becomes clearer and investors take fright from the new president, Joseph Estrada, the populist former movie star.

"There's now the realisation that the worst is still in front of us and this is what the market is rapidly discounting," says Lorenzo Lichauco, head of HSBC Securities in Manila.

The brokerage has just downgraded its forecast for gross domestic product growth from plus 0.5 per cent to minus 0.5 per cent this year, and from 3 per cent to minus 1 per cent in 1999.

First-half results of local corporates were mixed in the extreme. Telecoms giant PLDT turned in 59 per cent earnings growth while at San Miguel, the food and brewing leader, net profits fell 75 per cent.

"Results in general were probably disappointing for the market," says Alex



Connor, head of research at Indosuez W.I. Carr. "And the fact that banks have contracted their loan portfolios so sharply is raising concerns about the credit situation for many companies in the second half of the year."

Helen Alvarez, head of research at All Asia Capital and Trust Corporation, a local investment house, believes the market is beginning to look like a buy at these levels – 85 per cent of the most actively traded shares are trading at below book value and the market is on a multiple of 10 times 1998 earnings.

Like many analysts, Ms Alvarez also highlights the relative strength of the financial system. Top-tier banks are still posting profits and their capital adequacy ratios conform to international standards.

But these few bright spots amid the dark clouds are unlikely to lure back international investors until the regional outlook improves.

The Estrada administration is doing the country no favours with a perceived lack of direction, accusations of crony capitalism and conflicting signals on interest rates from the central bank and department of finance.

"They have to get their act together," says Mr Lichauco of HSBC Securities.

Justin Marozzi

Dow rallies as techs set strong pace

AMERICAS

Aided by the improved yen, calm returned to Wall Street and in early trading technology shares provided a firm lead, *writes John Labate in New York.*

"For just one passing day there looks to be a little bit of stablity in the world," said Hugh Johnson, chief investment officer at First Albany.

"Today is a follow-through from Tuesday's late recovery, with a lot of portfolio managers looking at stocks trading at attractive levels," he said.

By early afternoon the Dow Jones Industrial Average was 78.27 higher at 8,541.12, while the Standard & Poor's 500 index rose 12.48 to 1,081.46.

But just as Tuesday's sell-off was felt hardest by high-tech and small-company shares, those sectors gained the most ground in early trading yesterday.

The Nasdaq composite surged 30.61, a gain of 1.7 per cent, to 1,823.31. The Russell 2000 of small-cap stocks rebounded sharply, gaining 7.26 at 407.86.

For a second day, energy shares grabbed the headlines. Shares of MidAmerican Energy soared more than 27 per cent to $25 1/16 on CalEnergy's acquisition of the company. CalEnergy shares shot up 6.6 per cent or $1¾ to $28 1/16.

Amoco also continued to gain ground, a day after the announcement it was being taken over by BP. Amoco's shares were up another $1¼ to $48⅛.

In the Dow, Hewlett-Packard rose $1 3/16 to $51⅝ after CS First Boston began coverage with a "buy" rating. Sears Roebuck also climbed, up $1 1/16 to $47 11/16. Travelers rose $⅞ to $59⅝ after the company said it would add $1bn to its stock buy-back plan.

Semiconductor shares were up sharply, led by Micro Technology which gained $3½ to $34 1/16. In the internet sector, GeoCities surged more than 23 per cent or $8 13/16 to $46¼ a day after its initial public offering.

But Adobe Systems, the desktop software producer, tumbled 14 per cent or $4 7/16 to $26¾ after the company lowered expectations for its third-quarter results.

US Treasuries fell back on the second of three daily auctions. The benchmark 30-year bond was down 9/32 at 106 13/32, yielding 5.635 per cent.

TORONTO was helped by a rally in the Canadian dollar and the 300 composite index gained 153.88 or 2.4 per cent to 6,466.80.

The yen's rebound against the dollar helped the Canadian dollar off its lows. All 14 sub-indices were higher, led by the heavily weighted financial services sector, which gained 4.8 per cent, followed by consumer products, which rose 4.2 per cent.

Bank of Nova Scotia gained C$2.65 or 8.7 per cent to C$33.20 and the Canadian Imperial Bank of Commerce added C$1.50 or 4.3 per cent to C$36.25.

Resource stocks, recently hurt by weak Asian demand, rebounded, with the gold and precious metals index up 1.5 per cent. The metals and minerals group and the oil and gas sectors were also higher. Euro-Nevada Mining added C$1.05 or 7 per cent to C$15.80.

Bargain-hunters boost Dax

EUROPE

A wave of bargain-hunting allowed FRANKFURT to rally strongly from Tuesday's three-month low for German equities.

By the close of electronic trading the Xetra Dax index was up 101.16 at 5,386.94. The day's high point for the benchmark was 5,425.98.

SAP provided the day's best turn of speed with the software group's shares rising DM97.10 or 9.8 per cent to reverse all the previous session's decline.

Dresdner Bank, which remained silent in response to speculation it planned to buy US broker PaineWebber, rose DM1.25 to DM94.30.

Chemical group Henkel was well dealt, improving DM8.55 to DM162 and there was good activity in Karstadt, which ended DM41.30 higher at DM831.50 after a press report suggested that a pooling of big shareholder stakes in the retailer could lead to a change of control.

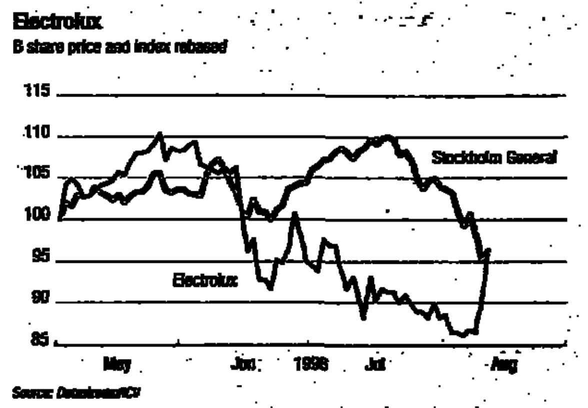
PARIS ended at its high for the session with the CAC 40 index up 99.72 at 3,945.70 on what dealers described as "modest bargain-hunting".

Software leader Cap Gemini provided the day's main talking point, surging 8.4 per cent or FFr72 to FFr925 on a combination of stories.

A takeover bid was said to be imminent and there was also talk of "safe haven" buying. But the main upward drive looked to come from speculation that Cap Gemini was set to push into Germany, Europe's biggest IT market, by buying the information technology activities of Siemens.

Elsewhere, an upgrade from Lehman Brothers to outperform sent France Telecom up FFr16.40 at FFr410. Solid first-half sales figures got behind Lagardère, which gained FFr7.90 to FFr240.90. Saint Gobain rose FFr54 or 5.7 per cent to FFr994.

AMSTERDAM made good roughly half the decline of the two previous sessions with the AEX index gaining 24.32 to 1,149.30 in spite of further weakness at market



heavyweight Royal Dutch.

The oil giant came off Fl 2.40 or 2.6 per cent at Fl 91.50 on concerns about tougher industry competition once the newly formed BP Amoco gets into its stride. But sentiment was also hit by earnings downgrades for this year and 1999 by a local broker.

Wolters Kluwer provided the day's sharpest gainer, adding Fl 21.90 or 7 per cent at Fl 336.60. Aegon rose Fl 6.60 to Fl 182.50. Among smaller caps, foods group Numico surged Fl 2.60 to Fl 58.50 ahead of today's interim results.

ZURICH closed higher on technical buying following Tuesday's decline. Blue chips recovered across the board and the SMI index closed up 159.60 or 2 per cent to 7,607.5.

UBS gained SFr14 to SFr574 and Credit Suisse added SFr6.50 to SFr330. Options-related buying provided underlying support, while speculation that the banks may soon settle claims from Holocaust victims also prompted buying.

SGS, the inspection group, shed SFr42 to SFr1,779. The company has been under pressure since its profit warning last week. CSFB has since downgraded the stock to "hold" from "buy".

ABB advanced SFr64 to SFr1,963 with investors shrugging off reports of a reorganisation. Drugs group Roche rose SFr210 to SFr15,300 while Novartis added SFr25 to SFr2,413.

MILAN posted a rebound amid thin volumes, with the Mibtel up 311 or 1.4 per cent to 23,115.

ENI posted marginal gains of L7 to L10,411 in spite of the merger between BP and Amoco. Sceptical traders do not believe the state-owned group is a merger target.

Parmalat rose L56 to L33,004 after a report the dairy and foods group was in talks to buy Cirio's milk business for L700bn.

MADRID managed to regain more than half of Tuesday's losses, with the general index adding 14.67 or 1.7 per cent to 866.78.

Bargain-hunting of blue chips helped share prices, with the worst hit stocks, including metals groups, posting sharp gains.

Repsol gained Pta50 to Pta7,560, but disappointed investors hoping for a strong rise following the BP/Amoco deal. The group is Amoco's strategic partner in Trinidad and Tobago.

Telepizza gained Pta100 or 8 per cent to Pta1,300 on bargain-hunting.

BBV advanced Pta25 to Pta2,555 after the company said it would invest a total of $350m to acquire a 55 per cent stake in Chile's BHIF.

Other banking stocks were also higher, with Santander up Pta75 to Pta3,740, and Argentaria Pta90 to Pta3,570.

Acesa gained Pta30 to Pta2,135 after the company said it planned to participate in the privatisation of the state-owned share of Autostrade in October.

STOCKHOLM followed other markets in the region with the all share index up 41.18 or 1.5 per cent to 3,387.09 amid heavy volume.

Electrolux, the electric appliance maker, gained SKr9 or 7 per cent to SKr138. Investors continued to buy the shares, which rallied on Tuesday following better-than-expected figures. Deutsche Morgan Grenfell and Lehman Brothers upgraded the shares.

The strongest sector was pharmaceuticals, with the index up 2.4 per cent. Astra gained SKr4 to SKr138.50 while Pharmacia & Upjohn added SKr3 to SKr358.

Written and edited by Jeffrey Brown, Emiko Terazono, Peter Hall and Paul Grogan

Wall St lifts São Paulo

SAO PAULO followed Europe and Wall Street higher but the rebound remained weak as nervousness over emerging markets persisted.

The Bovespa index, which tumbled 4 per cent on Tuesday, rose 95 or 1 per cent to 8,896.

Telebrás, which accounted for about half of total trading, rose R$1.60 or 1.4 per cent to R$115.40. The shares lost almost 5 per cent on Tuesday. Petrobrás edged higher with gains of R$0.99 to R$199.99.

BUENOS AIRES also staged a nervous rebound with the Merval index up 8.08 or 1.7 per cent to 497.74.

Telecom rose 0.26 pesos or 4.4 per cent to 6.18 pesos, while Indupa, the petrochemical group, gained 0.2 pesos to 0.63 pesos.

SANTIAGO edged higher with the IPSA index up 15.60 or 0.4 per cent to 3,939.99.

Johannesburg edges higher

SOUTH AFRICA

Shares in Johannesburg posted a technical rebound, with the all share index up 29 to 6,332.7.

Strength in Europe and Wall Street encouraged buying in the afternoon, and the financial index rose 2.3 per cent. Liberty Life rose 220 cents to R97, while Investec added 300 cents to R228.

Industrials closed flat while gold shares edged down 0.6 per cent in spite of a slight recovery in gold prices. Billiton lost 15 cents to R13.15 while De Beers fell 160 cents to R96.40.

Tokyo falls despite currency rally

ASIA PACIFIC

Despite a rally for the yen TOKYO extended its losing streak to eight days amid continuing concern about financial companies and the economy, *writes Alexandra Harney from Tokyo.*

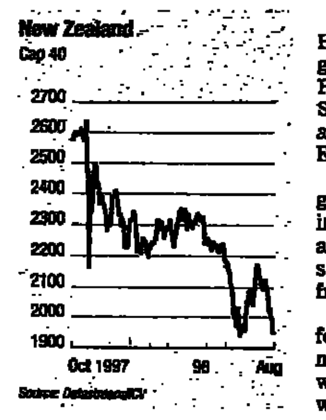
The benchmark Nikkei 225 Average ended 28.02 lower at 15,378.97 after trading between 15,269.83 and 15,534.07. Volume was down slightly at 426m shares. Decliners outpaced gainers by 723 to 380.

Sakura Bank was the day's most heavily traded stock, closing down Y8 at Y275. Long-Term Credit Bank added Y4 at Y42 in spite of a debt downgrade by Moody's.

In recent weeks LTCB has been hit by speculation about liquidity troubles and difficulties in its merger talks with Sumitomo Trust. Other banks gained ground. Sanwa added Y17 at Y941 and Sumitomo improved Y9 to Y1,120.

General Sekiyu, which is 48 per cent owned by US oil giant Exxon, tumbled 3.8 per cent to Y503 after Moody's rated the company's debt at Baa1 because of difficult conditions in the domestic oil market.

Japan Energy lost 4.35 per cent to close at Y132 follow-



ing Moody's confirmation of its Ba3 rating, one notch above junk bond status.

Nippon Telephone and Telegraph fell 4.4 per cent to Y1,120,000 after the government said it would sell some of its shares in the group.

The Topix index of all first-section shares lost 6.88 to 1,180. In Osaka, the OSE shed 75.08 at 16,463.5.

HONG KONG rallied, with a better day for the yen and softening local money markets sparking bargain-hunting.

The Hang Seng index, which hit a five-year low on Tuesday, ended 79.53 or 1.2 per cent higher at 6,859.48 although volume remained modest at HK5.55bn.

HSBC improved HK$2 at HK$157 and HK Electric gained HK$1.10 to HK$21.70. Property stocks stayed dull. Sun Hung Kai lost 40 cents at HK$22.50 and Cheung Kong 50 cents at HK$29.90.

KUALA LUMPUR gained ground with the composite index up 7.49 or 2.2 per cent at 342.19, but dealers said sentiment remained very fragile.

The ringgit rallied in the foreign exchanges, but share market volume remained weak and foreign investors were said to have stayed net sellers. Telekom rose 35 cents to M$6.45.

Motors continued to slide. Autoindustries shed 29 cents to M$1.58 and EON 38 cents to M$3.92.

WELLINGTON fell to within 16 points of its low for the year following disappointing results from Fletcher Group and a downbeat annual meeting at Carter Harvey Holt.

The 40 capital index ended off 40.88 or 2.1 per cent at 1,952.39. Fletcher Energy fell 25 cents to NZ$4.18 and Carter 18 cents to NZ$1.75.

SEOUL ignored the yen's rebound with the composite index off 5.90 or 1.9 per cent to 305.35. Selling of blue chips by overseas investors outweighed support from arbitrage-linked buying.

Korea Electric Power closed down Won400 or 2.4 per cent at Won16,100. Samsung Electronics also suffered from overseas selling, losing Won650 or 1.5 per cent to Won41,650.

Banks were also lower with Korea First Bank losing Won220 or 12 per cent to Won1,645 while Seoulbank declined Won200 or 12 per cent to Won1,480.

SHENZHEN closed at a record low on disappointing corporate results, and the B index fell 2.72 or 5.2 per cent to 50.08. Foreigners were the main sellers.

Wuhan Boiler fell HK$0.07 to HK$0.64 after it announced that first-half net profits had fallen 83 per cent. Bengang Steel was the most actively traded stock, losing HK$0.06 to HK$0.74.

SHANGHAI was also depressed by weak corporate profits and the the hard currency B index closed at a record low. The benchmark fell 0.94 or 3.5 per cent to 26.25.

Domestic and foreign investors sold Zhejiang Southeast Electric Power, which fell $0.012 or 7.2 per cent at $0.154, while Lujiazui Finance and Trade Zone Development retreated $0.012 or 3.5 per cent to $0.332.